LOCAL HOUSING COMPANIES: Progress and Problems

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by the
Chartered Institute of Housing

Brendan Nevin

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Executive Summary

1 The transfer of council housing estates in more disadvantaged urban areas, to Registered Social Landlords was one of the main aims of National Housing Policy since 1995, when the Estate Renewal Challenge Fund (ERCF) was launched. Of the 30,000 units which have been transferred with the assistance of the ERCF, 18,100 have been transferred to new independent local housing companies. The aim of this study was to highlight the experiences of the partnerships which have been involved in developing the first local housing companies in urban areas.

2 The study focused on six case studies, in Hackney, Sandwell, Sheffield, Stoke on Trent, Tameside, and Tower Hamlets. This report describes the development of local housing companies in urban areas and the resulting improvements in the outcomes for estate based regeneration. This was most notable in respect of the standard of refurbishment, pluralism in decision making and the long-term planning of investment and regeneration. However, the study also highlights the fact that estates with high investment needs and low asset values in areas of low demand are unsuitable for estate based transfer solutions.

3 The first round of the ERCF produced a mixed outcome for the sponsors of the first independent local housing companies in urban areas. Schemes in Stoke, Tameside and Tower Hamlets will secure £47 million of private finance to improve 3,600 properties. A fourth estate in Hackney has been successfully transferred as a local housing company within the Shaftesbury Housing Group, raising £28 million to improve 978 dwellings. Despite this success, the two largest schemes at Sandwell and Sheffield were aborted, thus failing to improve the 10,000 homes and to secure £117 million of private finance.

4 The two case studies which did not proceed to transfer failed for very different reasons. In Sandwell this occurred following a negative ballot result whilst in Sheffield the proposal for the scheme was aborted for technical reasons prior to ballot. Given the costs involved in developing proposals, the government should consider providing seed-corn funding for feasibility studies which would assess the financial viability of a local housing company and the prospect of securing tenant support, prior to large scale resources being committed to the scheme.

5 The development of transfer proposals is a time intensive activity. The case studies included in this research highlight the need for local authorities to commit adequate staff resources to develop the proposal, a streamlined political reporting system, and a communication strategy, to ensure that all interested parties have sufficient information to make decisions.

6 A comprehensive approach to regeneration was seen by all the stakeholders in this study to be essential to the long-term viability of the new Registered Social Landlords. The sponsoring local authorities should have a clear view of how it

wishes to engage with the new RSL after the ballot. This was not always apparent amongst the case studies included in this study where transfer was on occasion seen as an end in itself.

7 Local authority housing departments need to invest in the research capacity to match socio-economic data with highly reliable management and stock condition information, to enable transfer proposals to be integrated with wider socio-economic programmes designed to combat social exclusion, and to facilitate the change of ownership within budget and to the agreed timescale.

Chapter One

Introduction

The potential for private finance to compensate for the dramatic fall in public sector capital investment in council housing and contribute to the estimated £20 billion of repairs expenditure needed in the sector has been a feature of the housing policy debate over the last decade. This debate has been stimulated by the success of the Large Scale Voluntary Transfer Programme (LSVT) which had raised more than £4 billion of private finance to purchase and repair 260,000 properties in the period 1988/98. The issues which have arisen for central government, tenants and the new landlords were explored in an evaluation of this initiative published in 1995, (see DoE, 1995). Of the 68 voluntary transfers which proceeded prior to March 1998, only two (owned by MBC Walsall and Manchester MBC) were located in disadvantaged urban authorities. Combined, these two transfers only accounted for 2,900 properties (or 1.1 per cent of those transferred).

Despite the success of these predominately rural and suburban local authorities in raising a substantial capital receipt (over £9,000 per property on average) and the additional private finance for improvements, urban local authorities had been reluctant to pursue the LSVT option. There are a number of reasons for this reluctance which are set out below:

- Because of the nature of the buildings and the extent of disrepair, much of the stock in urban areas has a low or negative value and thus does not provide the incentive for raising proceeds from the sale of housing stock.
- The failure to generate a significant capital receipt means that the liability of servicing the residual debt associated within the transferred properties remained with the local authority.
- Many councillors and local government officers based in urban authorities considered the LSVT model to contain problems of accountability to the local community and overall governance of social rented housing.

Local housing companies

It was against this background that the housing policy community debated the creation of a new transfer vehicle which would enable tenants and local authorities a greater degree of influence over the management and strategic direction of transferred stock. This vehicle was developed into the local housing company model which gave tenants, local authorities and independent members equal voting rights on the board of a new Registered Social Landlord, (RSL).

The policy debate relating to the development of local housing companies (LHC) was assisted by the Joseph Rowntree Foundation and the Chartered Institute of Housing which jointly funded early exploratory research. This research report, published by the JRF and CIH, concluded that in **some** localities, *"The greatest potential gains, both locally and to the Treasury, would flow from the transfer of housing in urban areas"* and that it would be feasible to establish local housing companies to receive the transfer of urban council housing (see Wilcox *et al*, 1993). This initial research was followed by two further publications. Firstly, the Chartered Institute of Housing developed a guide to local housing companies which outlined the constitutional issues and the relationship between the transferring local authority and the new landlord (Zitron, 1995) and then the Department of the Environment published a joint report examining the feasibility of partial transfer in five local authority areas (DoE, 1996).

The publication of this research coincided with a growing political consensus relating to support for a growth in urban stock transfers and the need to attract private finance to improve council housing. The subsequent enactment of the 1996 Housing Act enabled local housing companies to be created and registered with the Housing Corporation. The framework for registration with the Housing Corporation is set out in the publication *Guidance for Applicants seeking to become Registered Social Landlords* (Housing Corporation, October 1996). This text was subsequently updated in 1998. For a local housing company to be registered with the Housing Corporation, the new landlord needed to be a not-for-profit organisation whose legal form was an industrial and provident society or a company or charity. Additionally, to satisfy the registration criteria, the new organisation had to be defined as a non-regulated company, i.e. where the sponsoring local authority does not have control or a dominant influence over the operations of the new landlord. Definitions of control and dominant influence are contained in Part V of the Local Government and Housing Act 1989 and the Local Authorities (Companies) order 1995.

The enactment of the 1996 Housing Act introduced a continuing strategic role for local authorities in relation to the objectives and operations of new Registered Social Landlords and so addressed one of the criticisms of the LSVT regime. This development built on the Conservative government's Estate Renewal Challenge Fund (ERCF) programme which was announced in 1995. This programme addressed the financial issues associated with the transfer of negative value council housing[1] and enabled the first negative value urban transfers to proceed. The detail relating to the operation of the ERCF is outlined in Chapter Three of this report, but the ambitious nature of the programme was highlighted both by the commitment of government resources and the projected outputs. Three rounds of the ERCF competition were held between 1995 and 1997 with proposals to transfer over 63,000 properties with £564 million of central government support being developed by successful bidding partnerships. By March 1999, 30 ERCF funded

1 For substantial exploration of this issue see *A Viable Proposition? Assessing the financial viability of low and negative value stock transfer* (Housing Corporation, 1998).

transfers containing 32,000 properties had been approved by the Housing Corporation, compared with the 71 local authorities which had transferred 323,000 properties via the LSVT route.

In July 1998 the government announced the results of its Comprehensive Spending Review with an additional £1.6 billion of additional resources being made available to fund new regeneration schemes over the period 1999/2000 – 2001/2002. The government also announced that the SRB would be refocused with increased emphasis on holistic approaches which are to be targeted more closely at districts and neighbourhoods which are highly disadvantaged. The shift to a regeneration policy based on combating social exclusion was confirmed with the introduction of the New Deal for Communities, an initiative targeted at the regeneration of communities located in neighbourhoods of between 1,000 and 4,000 dwellings.

The Labour government announced in the Comprehensive Spending Review that the ERCF programme was to be discontinued. In future, negative value partial transfers are to be financed through the Housing Investment Programme, or through the New Deal for Communities initiative. However, the government is intent on promoting the increased integration of housing and wider regeneration investment and strategies, and seeks:

> *To encourage local authorities to separate their strategic from their housing management functions. The transfer of housing stock to Registered Social Landlords has helped to separate out responsibilities, and this programme will continue.* (DETR, 1998, 3)

The first attempts to develop independent local housing companies have generated lessons and experiences which will have direct relevance to the development of regeneration programmes and local housing strategies into the next millennium.

Focus of this research

This study focuses on six of the twelve transfer proposals which were financed under the first round of the ERCF. Figure 1 overleaf shows that of the six proposals, four have successfully transferred properties. However, the three largest proposals have all encountered difficulties, with the projects in Sandwell and Sheffield failing either to secure tenant support through the ballot or private finance to improve the stock, whilst the third at Hackney was delayed because of large increases in public subsidy required to facilitate transfer. This research seeks to explain this pattern of results, and also to place the outcomes in the context of the changing policy environment for regeneration and housing improvements in disadvantaged areas which has now emerged in the second year of a new Labour government.

The remainder of this report is structured as follows:

- section two sets out the aims, objectives and information sources for the study;

- section three highlights the processes involved in transferring urban estates;
- section four outlines the key issues which affected the outcomes in each area;
- section five lists the main issues and lessons relating to the first round of the ERCF and sets out recommendations relating to improving the process of transferring low value urban housing estates.

Figure 1: Independent local housing company proposals financed under the first round of the ERCF

Area	No of properties	Successful transfer
Sandwell	7,053	✗
Sheffield	3,000	✗
Stoke on Trent	925	✓
Tameside	904	✓
Tower Hamlets	1,852	✓
Hackney	3,112	✓[2]
Total	16,846	

2 Hackney have subsequently transferred 978 homes on the Kingsmead estate to a local housing company which is a *subsidiary* of Kingsmead Homes. The transfer of the remainder of the properties was delayed because of the need for increased public subsidy to finance transfer.

Chapter Two

The study

In March 1997 the Joseph Rowntree Foundation agreed to sponsor an 18 month study which examined the development of local housing companies. This project aimed to provide an account of the developments of independent local housing companies financed through the first round of the ERCF programme and to highlight issues relating to the development of transfer policy at a local and national level.

The ERCF has provided resources to fund transfer via the voluntary transfer process, through the creation of local housing companies which exist within housing association group structures and through the establishment of independent local housing companies. This research is focused on the development of independent local housing companies in six localities which were considering this initiative following the allocation of ERCF resources. The focus on independent local housing companies reflected the scale of proposals developed as part of the ERCF first bidding round and the potential for this type of transfer vehicle to attract the interest of the larger urban authorities. The six localities chosen were: Sandwell; Sheffield; Stoke; Tameside; Tower Hamlets and Hackney.

The initial proposals at Hackney involved tenants in discussing a menu of transfer vehicles which included independent local housing companies. However, during the course of this study the local authority and tenants decided to transfer the Kingsmead estate to a local housing company within a housing association group structure. The Hackney case study, therefore, briefly highlights the borough's housing strategy and places the Kingsmead transfer in a strategic context.

Methods

This report highlights issues which have arisen during the development of local housing company proposals in six case study areas. The analysis has been informed by five sources of information:

- a general literature search;
- literature supplied by each of the case study areas;
- case study visits involving face to face interviews with local authority officers, members, tenants and independent board members held during 1997 and 1998;
- eleven seminars for local authority officers held at the University of Birmingham between September 1996 and July 1997;

- two seminars held for councillors and tenant board members at the University of Birmingham in February and May 1997.

The research has identified a highly fluid process associated with the establishment of urban local housing companies. The changing assumptions associated with disrepair, rent levels, board membership and business plans have necessitated some pragmatic changes to the initial proposals in some areas. It is likely that this level of pragmatism and adaptation will continue as the new companies develop over the next few years. Therefore, the issues raised here only reflect the first stages of the development of this new social housing vehicle.

Chapter Three

The transfer of urban estates: valuations, finance and process

The process of transferring council housing is a complex activity which involves many agencies and potentially thousands of tenants. The DETR have recently produced a *Housing Transfer Guidelines* booklet which describes the process in some detail (DETR, 1998). The following briefly sets out the major milestones involved in transferring council housing, explains the method of valuation, and the aims and objectives of the ERCF programme.

The transfer process: milestones

The authority to transfer council housing is provided by the legislation and guidance highlighted in Figure 2. The most significant phases of the transfer process for schemes receiving funding via the ERCF are outlined below:

- preparatory informal tenant and member consultation;
- decision to submit an outline bid;
- further informal tenant consultation, appointment of consultants;
- submission of final bid;
- grant allocation;
- delivery plan agreement;
- commitment of grant funded works prior to ballot (where appropriate);
- development of offer to tenants;
- council propose transfer and give initial notification to tenants;
- formal offer to tenants;
- council considers tenants response;
- second notice setting out any changes to the offer;
- ballot;
- funding agreement;
- registration with Housing Corporation;
- terms of transfer;
- transfer.

Figure 2: Legislation and guidance which relates to transfer

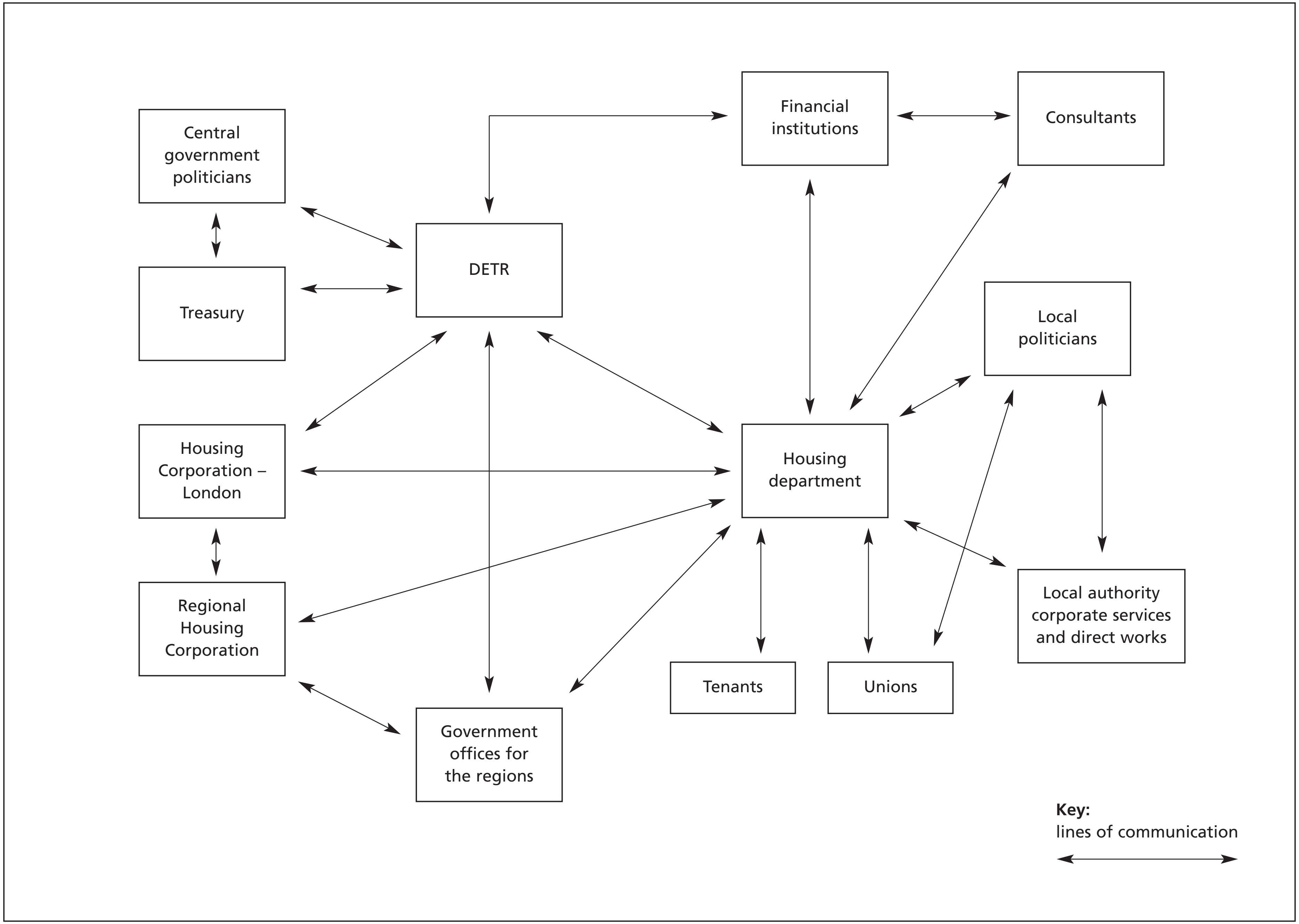
Housing Act, 1985	Secretary of State's consent required to transfer land
Housing and Planning Act, 1986	Outlines the process by which housing may be transferred
Leasehold Reform Housing and Urban Development Act, 1993	Any authority which seeks to transfer more than 499 properties to a single landlord must secure a place on the annual disposal programme
Housing Act, 1996	Enables the Housing Corporation to register Company Act Companies and hence allows transfer to take place
Housing Corporation Guidance, October 1996	Guidance for applicants seeking to become Registered Social Landlords
Housing Transfer Guidelines, 1998	Comprehensive account of the operational framework for transfer
Housing Corporation Guidance, August 1998	Guidance for applicants seeking to become Registered Social Landlords

This process takes a considerable period of time to complete if the local authority seeks to develop a genuine consultation strategy and to establish a new Registered Social Landlord based on robust financial and stock condition data. For Large Scale Voluntary Transfers, the DETR estimate that the process takes between eighteen and twenty two months, however, for some ERCF funded transfers this time period has been substantially longer, with a number of transfers from the first round not being completed at the time of writing – three and a half years after being proposed.

The reason for the longer time period associated with the transfers in urban areas is the complexity of the political processes and the uncertainties associated with transferring difficult to manage estates, with negative values, in localities which pose significant environmental and regeneration challenges. Figure 3 highlights the different groups and agencies which have an interest in the transfer process. In areas which have high levels of deprivation and a tradition of municipal provision the transfer of council housing may be openly or covertly opposed by groups (or factions within groups) which may perceive that they are adversely affected by the transfer of the housing stock. Even in the absence of such opposition, managing the flow of information and obtaining consent from such a wide range of interests requires considerable skill and commitment from organisations which operate a wide range of day to day services in highly disadvantaged neighbourhoods.

The list below shows how the issues of communication and management are further complicated by the scale of consultancy services which are often required to secure transfer. For example, the aborted transfer in Sandwell had an allocated budget of £3 million to secure transfer. The majority of these resources were to be

Figure 3: Groups and agencies which have an interest in the transfer process



allocated to private sector consultancies to facilitate the transfer and secure private finance.

Range and types of consultancies employed:

- lead financial consultants;
- financial intermediaries;
- lawyers acting for the landlord;
- lawyers acting for the tenants;
- tenants' friends;
- property surveyors;
- PR consultants;
- social/economic consultancies;
- architects;
- landscape architects.

Managerial and analytical tasks

Given the large number of organisations and individuals which are affected by stock transfer proposals, the management of the process prior to ballot requires considerable effort and skill. The large number of managerial and analytical tasks can be assembled under four broad headings: stock selection; establishing consent; ensuring financial viability and managing change. Each of these issues are considered in turn below:

1. Stock selection

In most disadvantaged urban areas there are competing priorities for housing investment, therefore to ensure that a political consensus can be achieved locally, selection criteria need to be established and applied. In practice, the criteria used can vary widely with examples including a focus on: community or estate based approaches; investment needs; demand and sustainability; problematic property-types; an area focus and linkage with other funding programmes such as the Single Regeneration Budget (SRB); or targeting investment on popular property-types in need of investment.

2. Establishing consent

It is prudent to obtain consent from elected members and to consult tenants about possible transfer prior to the development of firm proposals. This process may include the creation of new council committees and representative tenant participation structures. Outline proposals are needed at the initial consultation stage relating to the structure of the transfer vehicle and the extent of refurbishment/demolition. Additionally, a dialogue with trade unions both within the housing department and those who provide services funded by the Housing Revenue Account are necessary prior to the tenants' ballot.

3. Establishing financial viability

This issue is covered in more detail later in this chapter. However, it is necessary, early in the transfer process, for the local authority to provide data relating to voids, rent arrears, present and future rent levels, management costs and stock condition, to establish the valuation of the stock and financial viability.

4. Managing change

Given the large number of participants involved in a stock transfer (see Figure 3) the sponsoring local authority should develop a coherent communication strategy and ensure that the process is developed by staff who have appropriate experience and adequate resources.

Valuations

The price at which local authority housing is transferred through the voluntary transfer process has been calculated on the basis of a concept known at Tenanted Market Value (TMV). This estimates the net income (after management and repairs expenditure) that the stock will generate over a 30 year period and brings this to a present day value using a discounted cash flow calculation based on an 8 per cent rate prescribed by the Treasury.

The financial modelling is based on assumptions made about:

- future income from rents;
- future management costs;
- future maintenance allowances;
- future repair and improvement costs;
- future levels of voids.

The modelling is extremely sensitive to variations in costs and income and the timing of expenditure flows. To limit the potential for large variations in income, it is current practice to exclude Right to Buy projections from the TMV calculation. This reflects the experience of financial planning of the early LSVTs where the projections proved to be unreliable. The quality of information available for the modelling exercise is critical in the process of achieving an initial valuation which is subsequently validated through the refinements which occur during the business planning process.

The assumptions made during the financial modelling arise from discussions between organisations and interests which may on occasion have different objectives, such as the council, funders, the DETR, the Housing Corporation and tenants. However, the process is constrained by factors which include:

- the necessity to ensure that rents remain affordable in the long-term;

- that the company will honour the commitments given to tenants prior to transfer;
- the requirements of the Housing Corporation and funders that the stock will be managed and maintained to a minimum standard in the future.

For the first 55 LSVTs this method of valuation produced an average capital receipt of £9,480 per property. This receipt has been sufficient to pay off outstanding loan charges, cover the administrative costs of transfer, and in most cases provide a usable capital receipt. However, for urban authorities where management and repair costs are much higher, it is likely that the TMV process will produce a negative value, with public sector funding required to allow the new landlord to develop a viable business plan.

The extent of public subsidy required to ensure that the new landlords are viable is critically determined by assumptions made about the extent and timing of income and expenditure flows. Clearly it is essential that information relating to income (for example long-term demand and void levels) and to expenditure (catch up repairs, future planned maintenance etc.) are based on robust analysis and high quality stock condition information.

Estate Renewal Challenge Fund

The ERCF programme was launched by the DoE in December 1995 and was a programme designed to facilitate the transfer of the most deprived local authority estates using a mixture of public and private finance. The programme explicitly recognised that for low or negative valuation property the new landlord would have to receive a public sector cash injection to achieve a viable business with affordable rents. Additionally, poor asset cover may require public sector investment prior to transfer to provide protection to lenders. The programme was structured so as to provide finance for:

- dowries to be paid to new landlords (to cover negative valuations);
- small regeneration schemes within the boundaries of the bid;
- new landlord set-up costs;
- a nominal sum towards the local authority's costs.

As already noted in Chapter One, the ERCF programme was discontinued by the Labour government in 1998.

The funding was allocated via a competitive process with the initial bids being required in outline by February 16th 1996 and the full bid being submitted by 30th April. The format of the bids was highly prescriptive with the major information needs being outlined in the bullet points below. The outcome of the first bidding round was announced in July 1996, when £174 million was made available over a three year period, to finance twelve schemes which sought to transfer 18,934 properties to local housing companies and housing associations.

Information required in ERCF bid:

- rationale for disposal;
- indication of support;
- timetable;
- size;
- proposed purchaser;
- type of housing stock;
- valuation – including investment and rent assumptions;
- social and economic factors and associated regeneration activity.

The public sector costs associated with the twelve successful bids for ERCF allocated through Round One are set out in Figure 4. This reveals a discounted thirty year cost to the PSBR of £24,000 per unit in the first round of ERCF, accounted for by the public sector having to underwrite the value of the dowry required to transfer the stock; regeneration activity; set-up costs and the higher housing benefit costs arising from the need to increase the rental stream to finance loan repayments and improvement work. As a part of the bidding process local authorities were required to demonstrate to DETR that the public sector costs of transfer were either lower than the alternatives of demolition and new build or public sector refurbishment, or that any differences in financial costs could be offset against increased social benefits resulting from the transfer of council housing. In the long-term, transfer may be cheaper to the Treasury than direct public sector investment, but there is still a significant public cost.

Figure 4: ERCF Round One: average discounted valuations and costs

	Winners (average)
Estate based	1,600 units
Catch up repair costs	£16,000 per unit
Negative value	£7,500 per unit
ERCF	Under £10,000 per unit
PSBR costs	£24,000 per unit

Source: DoE 1996

The cost per unit of allowing transfer to proceed is around £10,000 per unit. However, more significantly, the discounted cost over thirty years to the Public Sector Borrowing Requirement (PSBR) is around £450 million (or £24,000 per unit). However, there is a considerable variation around the mean with unit PSBR costs ranging from £16,500 per unit to £48,000 per unit (*Social Housing*, 1996, Vol 8, No 7).

Figure 5 shows the costs associated with the schemes which are the focus of this study. These figures show a wide variation in costs associated with the initial bids. The improvement to the portfolio of properties in Sandwell was projected to cost around £16,447 per property, whilst at Sheffield this was estimated to be £37,000. These differences in cost reflected the different built form and outstanding repair issues in these two transfer proposals.

Figure 5: Local housing companies: case study areas

Local authority	Number of units on completion	Initial ERCF housing allocation £ millions	ERCF Per unit £	Private finance Total £ millions	Private finance Per unit £	Scheme total £ millions	Total cost per unit Per unit £
Sandwell	7,053	40.50	5,742	88.00	12,477	128.50	16,447
Sheffield*	1,850	39.23	21,205	29.27	15,822	68.50	37,027
Stoke on Trent	935	10.29	11,004	6.21	6,643	16.50	17,647
Tameside	864	9.57	11,072	6.43	7,447	16.00	18,519
Tower Hamlets	1,789	23.30	13,024	30.80	17,216	54.10	30,240
Total	12,491	122.89	9,838	160.71	12,866	283.60	22,704
Hackney	3,112	16.53	5,312	47.14	15,148	63.67	20,400

Source: *Social Housing* July 1996, Vol 8, No 7 p1
*Includes £17.4 million SRB allocation
Note: These figures were based on the information included in the original bids for ERCF resources

The views of financial institutions

The impact of increasing stock transfers is likely to be influenced by the position adopted by the lending institutions and their attitude to risk. Unlike positive value transfers in rural and suburban areas, transfers of poor quality urban housing may experience ground condition problems, high levels of catch up repairs relating to properties constructed using non-traditional methods, issues relating to inadequate surveys, decanting and cost and programme over-runs. The lenders will therefore seek to minimise risk and ensure that any new stock transfer vehicle has a robust business plan and the capacity to sell property in the event of default on the loan. This strongly suggests that the financial institutions will:

- Ensure that the areas where they lend have viable (non-housing) regeneration strategies, and that the housing stock will be lettable in the long-term.
- Insist on a limit to the amount of stock included in a transfer which is unmortgageable because of its type of construction or design characteristics (this may be as low as 10 per cent).

- Estimate the open market value of the stock after improvement and ensure that the open market value to debt ratio is around 1.5:1. This means that lenders will not advance more than two thirds of the sale value of the portfolio of rented property. This requirement will clearly be problematic in areas where lenders consider the properties to have particularly low capital values or in the case of high-rise blocks, a zero open market value.
- Analyse data relating to Right to Buy sales in the locality to determine the strength of demand for owner occupation in the event that the sales of empty properties are necessary because of cash flow difficulties (Jones, 1997).
- Scrutinise the contingency plans for failing to deliver the improvement programme within cost and time. Of particular relevance here are the details of the management of the refurbishment programme, the types and size of contracts and the penalties associated with non-performance (Jones, 1997).

It has become accepted practice in stock transfers for councils to provide warranties both to the new landlord and the funders. The warranties can take two forms:

1. Title warranties where the council agrees to recompense the purchaser for any cost or damage if title problems other than those disclosed at the time of the sale are subsequently discovered.
2. Environmental warranties where the council indemnifies the lender and the new landlord for any current or future liabilities associated with the environment such as contamination. The issue of environmental warranties have proved to be a particularly difficult issue for councils who are transfering stock with a negative value and cannot therefore generate the benefit of a capital receipt with which to offset the potential costs of future environmental liabilities.

The results of this will tend to discriminate against the largest and most rundown estates, particularly in the North and Midlands, where potentially high levels of land contamination, system building, voids, arrears and low demand are prevalent. However, despite these issues, to date no transfer proposal which has secured a positive ballot result has failed to secure funding.

Chapter Four

Independent local housing companies: the outcomes of the first round of the ERCF competition

The first round of the ERCF produced a mixed outcome for the sponsors of the first independent local housing companies in urban areas. On the positive side, four of the schemes will successfully proceed to transfer. Schemes in Stoke, Tameside and Tower Hamlets will secure £47 million of private finance to improve 3,600 properties owned by independent local housing companies. A fourth estate in Hackney has been successfully transferred as a local housing company within the Shaftesbury Housing Group, raising £28 million to improve 978 dwellings.

Despite this success, the two largest schemes at Sandwell and Sheffield were aborted, thus failing to improve the 10,000 homes and to secure £117 million of private finance. There is also some evidence that the ERCF programme has been difficult to administer and that the resulting transfer process has been hard for tenants, elected members and council officers to understand. In addition to the failure of the Sandwell and Sheffield schemes, the DETR temporarily suspended the proposal at Tameside to ensure that the programme was deliverable, while the project at Hackney was delayed as the need for a dowry payment increased from £1.8 million to £14.8 million as the scheme developed. That there has been a mixed outcome to the projects funded via ERCF Round One is not surprising when the profiles of schemes are considered. For example, the projects varied greatly in terms of the socio-economic conditions and built form, with Norfolk Park in Sheffield having deteriorated rapidly over ten years at one end of the spectrum, and the relatively stable traditional estates in Sandwell at the other. Similarly, differences existed in the approach to targeting, with Stoke selecting a property-type (flats) while Tower Hamlets and Tameside focused on disadvantaged neighbourhoods.

This section of the report seeks to outline the major issues in each locality which affected the eventual outcome of the transfer proposal. The case studies which follow highlight the main characteristics of the proposal, the rationale for seeking to transfer the estate(s), the proposed structure of the new organisation and elements of good practice which arose as the transfer process developed.

Case study: Sandwell

The proposals to transfer stock in Sandwell were the most ambitious of the first round of the ERCF. The estates were grouped geographically into three companies focused in West Bromwich, Wednesbury and Warley/Cradley Heath. The estates largely consisted of houses built in the 1930s and 1950s and were considered to be reasonably popular but in need of considerable investment to modernise the properties to acceptable standards. The proposals included the demolition of approximately 400 properties contained in high-rise, pre-cast reinforced concrete dwellings and walk up flats.

The decision to transfer council housing was taken by the ruling Labour group in January 1996. This decision followed a two year debate stimulated by stock condition information which suggested that around £450 million of investment was needed for the borough's 46,000 council properties. A consultation process was developed during 1994 and 1995 which involved tenants through area based meetings, seminars for elected members and briefings for housing department staff. When the ERCF was announced, a decision was taken to bid for resources on a sufficient scale to make a strategic impact on the borough's housing conditions. The decision to make a large bid for resources in Round One of the ERCF was also influenced by the belief that subsequent rounds of the competition would be heavily oversubscribed by big city authorities.

The decision to bid for resources was supported by key and leading members of the ruling group and the vote (thirty in favour, eleven abstentions and one vote against) reflected the view that there was "no alternative" to secure significant investment for council housing. However, there was unease at the decision to proceed, this partly being influenced by the opposition to the proposed compulsory transfer of 4,000 properties to a HAT in Sandwell during 1988/9, fears over the security of employment for the direct labour organisation and the impact of higher rents in a low wage economy. These fears were reflected in the reporting structure which was devised to ensure the political management of the transfer process. Council officers were responsible for serving four council committees during the twenty months prior to the ballot, these being: Housing Committee; Regeneration Committee; Policy and Resources Committee; Estate Renewal Challenge Fund Sub-committee.

The decision to bid was followed by the selection of estates. The main factors which influenced the selection of a portfolio of property largely consisting of traditional family housing were as follows:

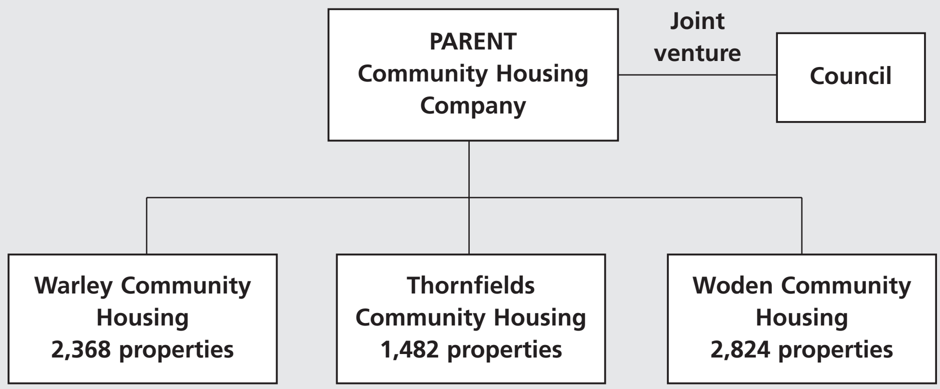
- The estates were still popular but had little priority for investment within the council's constrained capital programme.
- It was felt that without investment the estates would become unpopular over the next decade.
- The predominance of traditional family housing would be attractive to funders.
- The estates were geographically dispersed across the borough, thus enabling many communities (and ward members) to benefit from investment.

Having selected the estates, the council then designed an organisational structure which sought to achieve two objectives:

- to create a strategic body which maximised both the regeneration impact across the borough and council influence; and
- to devolve powers and operational control to local communities.

The result of this planning was a group structure, with a parent (Sandwell Community Housing) providing strategic direction and central services to three subsidiary companies (see Figure 6). Significantly, while the board of the Sandwell Community Housing received 60 per cent of the representatives nominated by the subsidiary companies, the council sought to retain 49 per cent of the voting rights at the general meetings, a structure which did not meet the Housing Corporation's regulatory requirements.

Figure 6: Sandwell Community Housing Group structure



Activities reserved for the parent:
- Group business plan and budgets
- Monitory of operations and policies
- Key appointments at group level
- Admissions of new members of the group
- Strategy development

Activities assigned to the subsidiary:
- Responsibility for conduct of business
- Housing management
- Appointments of staff

Source: Sandwell ERCF bid (1996)

In June 1996 the government announced that £40.5 million of ERCF was to be allocated to Sandwell to facilitate the transfer. There were two specific characteristics of the ERCF allocation. Firstly, £19.4 million was allocated for pre-transfer works. This investment was designed to improve the asset cover of the stock for potential lenders. Secondly, £6 million of ERCF grant was made available for environmental improvements and regeneration projects which included the provision of community centres, dropped kerbs, off street parking and street landscaping. These regeneration resources were subsequently complemented by £9 million of SRB resources to generate employment and develop a strategy for young people on the ERCF estates, a factor which reflects the borough's focus on regeneration which was the council's corporate priority.

Following the announcement of the ERCF allocation the council created an implementation team of around sixty officers. This included secondments from housing strategy, community participation, housing management, and maintenance and programme teams. Additionally, shadow boards were created for the new organisations and a steering group of up to 100 tenants was regularly consulted.

Significant issues

In September 1997 a ballot was simultaneously held for tenants of 8,000 properties in four local housing company areas (a fourth, Greets Green, being included after political instruction and funded via ERCF Round Two). The offer to tenants included investment of nearly £130m in the 7,000 properties included in ERCF Round One, with a rent guarantee of RPI only for five years. A £2.50 levy to finance improvements was to be additional to this formula. (See Figure 7). The ballot achieved an 81 per cent turnout, and in each of the four local housing company areas, the proposal to transfer was rejected (see Figure 8).

Figure 7: Sandwell facts

Property numbers	7,053
Vote	No: 59.4% Yes: 40%
Turnout	81%
ERCF allocation	£40.5 million
Private finance	£88 million
Average rent 1997	£46.87
Rent envelope	RPI only for five years, £2.50 increase for improvements. RPI plus 1% following 5 year guarantee
Rent at year 5	£53.03

Figure 8: ERCF ballot of tenants – results

Company	Turnout	Spoilt/void papers	Yes votes	No votes
Woden Community Housing Ltd	(80.9%)	14	1,267 (41.4%)	1,795 (58.6%)
Thornfields Community Housing Ltd	(81.6%)	14	837 (46.8%)	951 (53.2%)
Greets Green Community Housing Ltd	(79.5%)	7	587 (39.1%)	915 (60.9%)
Warley Community Housing Ltd	(81.9%)	21	1,122 (35.9%)	2,002 (64.1%)
Totals	(81.1%)	56	3,813	5,663

Source: Sandwell MBC

Through interviewing participants it has been possible to identify a number of factors which have appeared to have been influential in determining the result and they can be broadly divided into two categories: factors influenced by the scale and design of the initial bid; the interaction of the various participants involved in the transfer process. These two categories are outlined below.

Adverse features of the Sandwell proposal

In hindsight there were a number of features contained within the Sandwell proposal which worked against a successful ballot result. These can be separated into four headings:

- **Size**
  The decision to package eight estates into four local housing companies which were geographically spread across the borough was determined by investment needs, desired impact and the spatial politics of the locality. However, the delivery of what amounted to four separate transfers within two years necessitated splitting the departmental management team in half, leaving half to manage the remaining 36,000 properties. This ensured that the remainder of the housing department had little capacity to support the ERCF implementation team, while this team was attempting to implement a transfer for the first time, design regeneration strategies for the affected areas, and implement community consultation strategies in areas which had often been 'packaged' for administrative and political reasons.

- **Scale of consultation**
  The ERCF implementation team were faced with a considerable task in relation to consultation because of the scale of the bid and the decision to develop a group structure. Thus council officers had to constitute and service five shadow boards, containing twenty five councillors, a steering group of up to one hundred tenants and up to four council committees. The time which these consultative and administrative duties consumed detracted from the objective of effectively communicating the benefit of transfer to the mass of tenants. However, the high turnout shows that sufficient information was provided to enable tenants to take a view that it was important to vote.

- **Pre-ballot works**
  The allocation of £19.4 million of ERCF resources to finance pre-ballot works was originally viewed as a highly positive feature of the Sandwell bid. In practice, the management and implementation of an investment programme of this size created further problems for the implementation team which can be summarised as follows:
  - the time taken on management of the investment programme further detracted from getting the message of the benefits of transfer across to tenants;
  - where poor quality workmanship occurred, time was taken responding to tenants' complaints, rather than promoting a positive message;
  - the existence of a large investment programme contradicted the council's message that transfer was necessary because of a lack of public sector funding.

- **Type of stock**
  While the portfolio of stock which was proposed for transfer largely consisted of traditional family housing, the stock was built by several different local authorities prior to local government reorganisation in 1966 and 1974. Therefore, in practice there were dozens of different types of properties for which no adequate previous investment records existed. This created difficulties for the implementation team as it meant that there was considerable confusion as to the improvement threshold which would trigger a £2.50 rent increase in one area (or street) compared to another.

The interaction of stakeholders
The creation of local housing companies had always been viewed as the product of co-operation between local government, tenants and the wider community. However, the experience of the transfer process in Sandwell shows that the different interests and aspirations of these groups can contribute to a negative ballot result. A number of factors are outlined below:

- **Aspirations**
  Despite a disrepair bill of over £450 million, the evidence from the Sandwell Housing Needs Survey (1996) show that 62.7 per cent of tenants were satisfied with the state of repair of their home and 58 per cent were satisfied with the quality of service they received from their landlord. These figures have to be compared with the 59.4 per cent of tenants who voted against transfer.

- **Age profile**
  The target estates contained significant numbers of elderly tenants, a high proportion of whom had problems of ill health. The type of modernisation work required would have entailed considerable disruption to the occupants with arguably fewer long-term benefits. The socio-economic profile of the estates was secondary to property-type and location when the bid was designed.

- **Lack of tenant organisation**
  In only one of the local housing company areas was there a strong tenants' organisation in place. This was common to some other case study areas, however, their smaller scale and tight geographical focus made the initial consultation process more manageable.

- **Politicians**
  Given the history of municipal provision in Sandwell the decision to transfer council housing was taken against a background of unease. This was reflected in the fact that elected members did not decide to *personally* campaign for a 'Yes vote' until four weeks before the ballot. Many members agreed only because there was no alternative to raise finance; this is not a powerful reason to positively sell a concept and as one council officer explained: *"The ruling group agreed, but rank and file members had not got a grip of the process"*.

- **Unions**
  Both blue and white collar unions opposed the transfer in Sandwell, and provided funding for the small 'No campaign'. Despite the proposal to set up a DLO within the new companies there was little interest expressed by manual workers in transferring. The dissatisfaction with the transfer proposal was transmitted by some manual workers to tenants during the course of maintenance activity.

Conclusions
The negative ballot result in Sandwell can be viewed as the result of the interaction of a number of complex factors which included the history of the area, the design of the bid, the types of areas selected, and the conflicting interests of different groups. The result has left an investment shortfall of around £100 million for the target estates. However, paradoxically one elected member has estimated that the installation of new windows as a part of the pre-ballot works has reduced complaints at his surgery by 50 per cent, which perhaps reflects a culture of low aspirations in the locality.

Case study: Tower Hamlets

The factors which influenced the successful ballot in Tower Hamlets makes a useful comparison with the previous case study. Like the situation in Sandwell, members and officers in Tower Hamlets had been discussing transfers to local housing companies since 1995. This process started in January 1995 with the production of a working paper which was then refined and distributed to influential politicians in the April before being agreed by the ruling group in the summer, with 42 elected members in favour and one opposed. The transfer proposal was able to proceed on a consensual basis because of the recent history of transfers within the borough, for example the establishment of the Bow HAT and a 800 unit transfer contained within the first round of the SRB. The decision to proceed with a negative value transfer in Tower Hamlets preceded the introduction of the ERCF. In the summer of 1995 the council submitted a bid for £50 million of SRB resources to fund a dowry for 6,000 properties in the Poplar area, this bid was unsuccessful, however, the DoE did encourage the local authority to conduct feasibility studies into the transfer of council stock.

By the time the ERCF programme was announced, the council had developed a strategy to dispose of 12,000 properties to Housing and Regeneration Community Associations (HARCAs). The initial bid sought £60 million of resources for 7,000 properties to fund transfers to both the Poplar and city-side HARCAs. However, following DoE guidance this bid was reduced initially to £23 million to finance the transfer of 1,800 properties.

Figure 9: Tower Hamlets facts

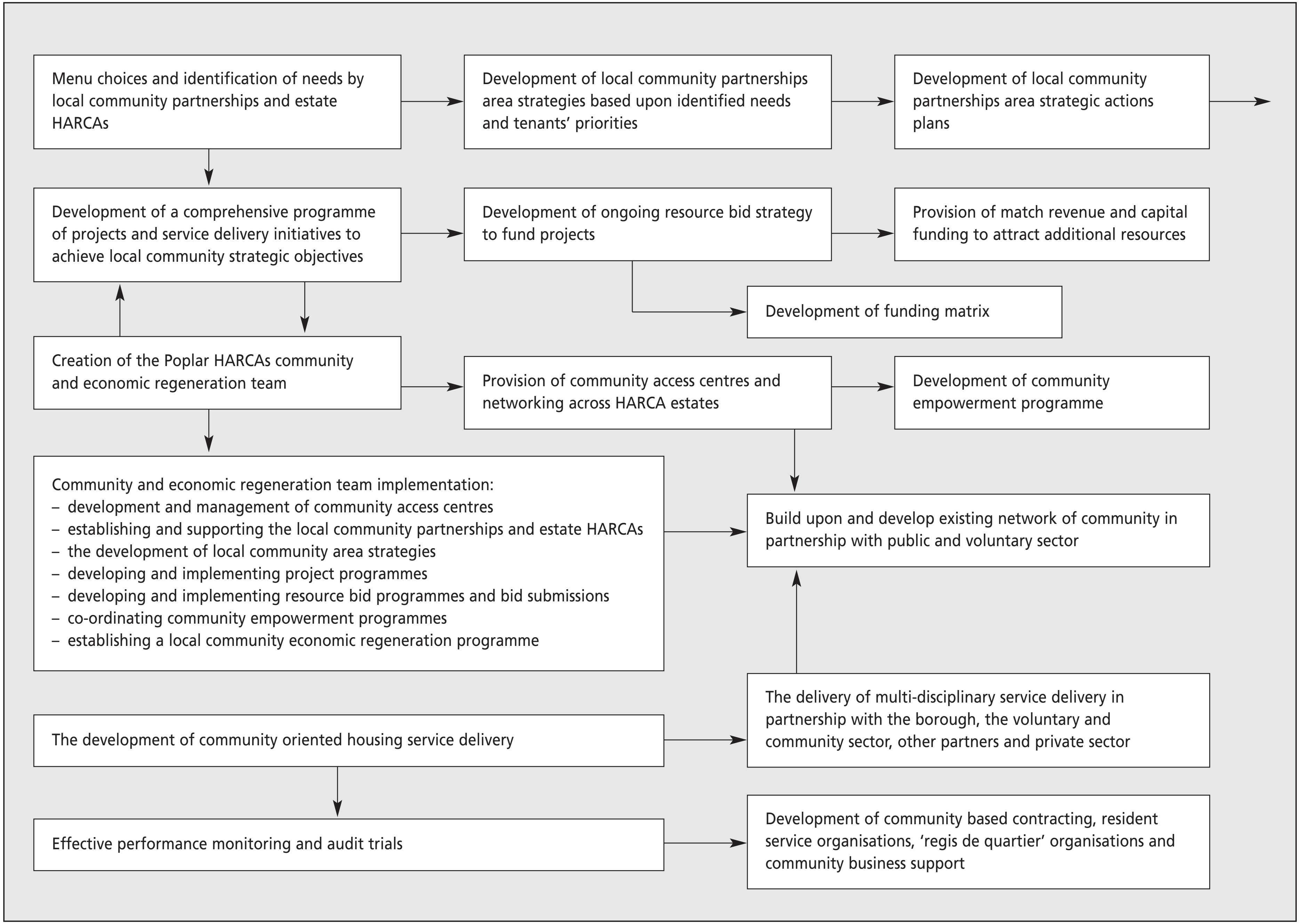
Property numbers	1,852
Vote	Yes: 72% No: 28%
Turnout	66%
ERCF allocation	£35.2 million
Private finance	£53 million
Average rent 1997	£47.60
Rent envelope	Increase in year one to £49.85 plus inflation, then six years at RPI plus £2.25
Rent at year 6	£63.35

The final bid for ERCF resources was targeted in three estates in the Poplar area: Lansbury North, Lincoln North and Burdett. These estates contained a mixture of properties which were built in the 1930s and 1960s consisting mainly of five storey walk up flats and 1960s walk ups and high-rise flats. The area is located adjacent to the Canary Wharf development and in close proximity to high cost housing for sale which was promoted by the London Docklands Development Corporation. The Poplar area has been a priority area for investment for many years and the council had previously unsuccessfully bid for resources from the HAT programme, City Challenge, and the SRB.

The development of the HARCA has been underpinned by a philosophy which emphasised a holistic approach to regeneration. This was reflected in the way in which the bid was developed, for example, the cash flow associated with the valuation included a £2 per week contribution from rents to create a £350,000 per annum revenue budget to fund community regeneration initiatives, and £1 million in capital was allocated to develop community access centres to provide education, training and social opportunities.

The Tower Hamlets area has been a consistent target for central government regeneration initiatives, with four SRB programmes, European funding and a HAT programme all operating in the locality. Because of the scale of transfers, initially proposed over four rounds of the ERCF, it is envisaged that the HARCAs will play a significant role in regeneration and be a partner in existing regeneration initiatives. Poplar HARCA developed a detailed regeneration strategy to respond to these opportunities and the types of activity planned are highlighted in Figure 10.

Figure 10: The HARCA community regeneration strategy: implementation plan flow chart



Securing a successful ballot result
The consultation team faced a number of problems associated with securing a positive vote in Poplar. These issues included a degree of cynicism which developed because of the history of failed bids for resources, a multi ethnic community spread over three estates (although in close proximity) and unlike bids in the North and Midlands, a significant number of leaseholders.

- 170 leaseholders were included in the Tower Hamlet scheme;
- leaseholders were consulted but did not have an entitlement to vote;
- the HARCA intended to charge leaseholders up to £10,000 for improvements to the fabric of the flats;
- if owners had problems meeting their obligations then the HARCA will allow either: time to pay; provide a loan; or do the work and set a charge against the property.

The approach to consultation was intensive with a team of eight working most evenings and using a wide variety of communication techniques:

- newsletters;
- fact sheets;
- posters;
- offer document;
- local press coverage;
- radio programmes;
- TV programmes/news;
- evening meetings;
- surgeries;
- Bengali women only meetings;
- Bengali men only meetings;
- street stalls;
- HARCA bus;
- video;
- home visits.

The team estimated that they would have seen nearly everybody affected by the proposal five or six times and it was considered important to have this level of personal contact to overcome factionalism and disinformation which could rapidly be spread by word of mouth.

Developing the shadow boards
The shadow board was developed in a two stage process with the council and tenant nominees appointed first, and then in partnership these two stakeholders appointed the independents. The tenants were nominated from a joint estate panel with one from each estate, a leaseholder, and an observer from an adjacent estate. Formal elections will be held after transfer and new estate boards will provide consultative mechanisms for contracts, management and regeneration issues.

Issues
The process of transferring the stock to the Poplar HARCA was aided by a number of positive factors, some of which were generated by officers of DETR and Tower Hamlets LBC during the development of the bid. Others related to the history of the provision of housing in the locality. These issues are summarised below:

- **Scale**
  Unlike in Sandwell the bid was based on three adjacent estates which made focused consultation activity possible. Additionally, the decision by DETR to ask Tower Hamlets to scale back the bid enabled the council to focus resources and subsequently learn from experience.

- **Local knowledge**
  The implementation team was staffed by personnel who had lived and worked in the area for many years. This enabled communication to key local players on a formal and an informal basis.

- **Target area**
  There was a consensus that the target area required resources and that transfer was a legitimate way of securing resources. This view was reflected in the political reporting structures created by the council to oversee the transfer, with most reports only having to be referred to the Housing and/or Regeneration committees.

- **Small number of property-types**
  There were only a small number of property-types within the transfer proposal ensuring that communicating about improvements with tenants was relatively uncomplicated.

- **Housing market**
  The location of Poplar with close proximity to the city of London and the financial centre at Canary Wharf, combined with a consistently high demand for social housing, meant a high degree of confidence in the future viability of the local housing company. This combination of factors, i.e. the absence of problems in letting and the high market rents which could be achieved in the light of financial difficulties is a feature which is peculiar to the housing market in London.

- **Use of a client development agency**
  An early decision was taken by Tower Hamlets LBC to develop a partnership with an existing Registered Social Landlord (RSL) to provide services in respect of the development of a framework to raise mixed finance, and project manage large scale capital investments. This approach recognised the expertise of RSLs in this field and the partner chosen, East Thames Housing Group, owned large numbers of properties in the East End and had an established record of involvement in regeneration activity.

The staff who developed the HARCA believed that RSLs can provide a considerable expertise in assisting in the development of local housing companies providing that:

- the RSL has a commitment to the locality;
- the principles of the RSL are compatible to those which drive the new organisation;
- the board of the RSL are fully supportive of the staff involved in developing the concept;
- the RSL is prepared to commit the necessary resources to the venture.

The role of the client development agency is set out below. It:

- commissioned a stock condition survey;
- assisted in the development of cost profiles for the business plan;
- provided development services for new build and project management;
- provided temporary decants for people affected by demolition.

- **Lack of organised opposition**
  Unlike Sandwell where white and blue collar unions opposed the transfer and provided funding for tenants' organisations which mobilised against the council's proposals, there was no organised opposition against the establishment of the HARCA. This situation did not continue in Tower Hamlets and the ballot for the ERCF Two scheme at Poplar was successful by a majority of fifteen, while the ballot to establish the city-side HARCA in Bethnal Green was defeated by a margin of nearly 2:1, following a concerted campaign by some residents' groups and fringe political parties.

Conclusions

The Tower Hamlets case study demonstrates how a local authority could develop a local housing company in partnership with residents and an established RSL in a highly deprived area with a history of failed bids and dashed expectations. This largely positive case study did encounter some problems, an additional £11.4 million of dowry was required to ensure the financial viability of the scheme following increasing cost estimates associated with improving the stock (for example, the need to clad high-rise flats). This finance was provided by the DETR after negotiation (however, similar problems with undercosting work at the bidding stage were far more problematic in Sheffield and Hackney). And while the DETR and Tower Hamlets were able to solve teething troubles during the development stage, the financing of the project entailed substantial rent increases, the impact of which will need to be monitored over the next six years.

Case study: Sheffield

The Norfolk Park estate consisted of 3,095 dwellings when the proposal to transfer the estate was being developed. Located approximately one and a half miles to the south east of the city centre on an exposed hillside the estate had been considered problematic and difficult to let over the past decade. The estate exhibits characteristics typical of declining neighbourhoods in the Midlands and the North of England. For example, more than 60 per cent of dwellings were located in 15 high-rise blocks which were increasingly difficult to let and by the time the ERCF bid had been submitted the void levels had reached more than 30 per cent of the high-rise stock. The problems of the estate were additionally compounded by a high number of maisonettes and non-traditional construction types within the remainder of the stock. The breakdown was:

Multi-storey flats	1,890
Maisonettes	552
'Vic Hallam' houses	395
Low rise flats	99
Total	2,936

In addition to a very adverse property portfolio and lack of demand for property in the area, the estate also houses very high concentrations of people who were economically and socially disadvantaged, for example 34 per cent of the economically active were unemployed and three quarters of households did not have a car. It was widely believed by tenants, politicians and local authority officers that the backdrop of deprivation and poor housing conditions contributed to the development of a disillusioned community, and that this sense of disillusionment increased with the failure of a number of bids for regeneration funding. For example, during the period 1988 – 1992 four bids for Estate Action funding were turned down and in 1993 the government declined to award HAT status to the area. When in December 1993 an Estate Action Bid was approved for the estate its value was only £650,000.

It was against this background that the city council in 1995 included a bid for £19m within their successful Round Two SRB bid to help finance the development of a local housing company. The proposals at this time were to demolish 9 of the 15 high-rise blocks and refurbish the remaining 1,800 units. The ERCF bid further developed the thinking behind the proposal (particularly the financial modelling) and a further £19 million was secured for the estate via the first round competition.

The Sheffield case study is unusual in the context of the first round of the ERCF as the proposal never reached the ballot stage as the scheme was abandoned following more detailed stock condition surveys. However, it has also become apparent that it was unlikely that the LHC would have been successfully established because of difficulties in convincing tenants of the benefits of transfer and consequently developing the shadow board. These two issues are now examined in turn.

Stock condition

During April 1997, the interim board of the LHC were informed that the council's funding advisors were pessimistic about securing private finance for the scheme. The independent stock condition survey which was developed using a much higher specification than that used by the council questioned the viability of the 600 maisonettes located on the estate. The stock condition survey estimated much higher repair and improvement costs and also assessed the value of the properties after the required level of investment to provide a thirty year life. The figures are listed in Figure 11 and show that the property assets within Norfolk Park do not provide the necessary loan security value required by lenders. For example, the 'Vic Hallam' houses required a valuation of nearly £58,000 per property following improvement works to provide the preferred loan to value ratio of 1:1.5. However, the value of these properties peak at only £18,600 following improvement before declining over the period of the business plan. Given the higher levels of investment need highlighted by the stock condition survey, the business plan had to be revised. This exercise revealed that not only was the company unfundable for security reasons but that it would also be insolvent given the higher levels of expenditure and demolition required.

Figure 11: Sheffield Norfolk Park: repairs expenditure and maximum valuation by property-type

	Repair costs £	Maximum valuation £ per unit
Tower Blocks	£43,704	£7,700
'Vic Hallam' houses	£38,600	£18,600
'T' types	£24,826	£20,600

* All maisonettes were excluded from the analysis as they were considered unviable
Source: Sheffield City Council (1997)

Developing the shadow board and securing consent

Obtaining consent by tenants on Norfolk Park to develop a transfer process was highly problematic. The tenants who had helped to develop the SRB bid had left the area (a product of the high turnover in the locality), and from the very beginning mistrust between the different stakeholders was endemic. The estate's tenants association opted out of the process and five inexperienced tenants were elected to the board having been nominated at a public meeting with approximately 20 participants. One local authority officer described the subsequent meetings as being frequently *"abusive and aggressive"*.

Figure 12: Sheffield Norfolk Park facts

Property numbers	2,936
Vote	Scheme withdrawn
Turnout	n.a.
ERCF/SRB allocation	£39.230 million
Private finance	£29.270 million (estimate)

The difficulties in developing the shadow board in Sheffield were also evident in relation to the council's representation. The bid was originally developed through delegated authority, therefore the *detail* of the bid had not been widely discussed by the ruling group, although it was understood why a bid had been submitted. The politicians therefore had to keep abreast of a rapidly developing concept which is inherently complicated, without having had much in the way of prior discussion or training. As one elected member described the situation,

> *we were being led by the nose in a process which was solely about property rather than communities.*

The problems associated with securing an unambiguous political commitment to the project were compounded by a change in the political management of housing in Sheffield with the election of a new chair in May 1996 who felt she had inherited a complicated bid which had not been widely debated.

Thus, the challenge of forging a consensus to develop a transfer package in this estate, with its legacy of disillusionment, high levels of deprivation and turnover proved to be too great. This is reflected in the fact that despite six local authority officers working on the scheme (including an assistant director) so much time was spent on trying to manage the factionalism and distrust that no specific policies were developed for the new organisation. There was little belief amongst the stakeholders that a positive vote would have been achieved had a ballot been held.

Conclusion

The scheme at Norfolk Park suffered from considerable tenant mistrust, a very high proportion of non-traditional properties and a very low level of demand. Any one of these characteristics was sufficient to abort the proposal. However, in Sheffield all three were present. It is clear that estates such as Norfolk Park are unsuitable for a transfer initiative unless they are packaged within a much larger stock transfer initiative. The proposals being developed for the estate now reflect this, with only 15 per cent of the stock being considered for refurbishment, with the remaining property being demolished and replaced by 1,600 new units provided by developers and housing associations over a ten year period.

Tameside: case study

The decision to transfer properties in Ashton under Lyne to a new local housing company was taken following discussions with the DoE as to how the local authority would raise finance towards the estimated £250 million of repairs and improvements required for the borough's 18,000 council dwellings. The decision to proceed with transfer was taken quickly and was opportunist in nature, with little time available to fully consult tenants and elected members prior to the bid for ERCF resources being submitted.

Ashton was chosen to pioneer stock transfer in Tameside because the area was located within an SRB target area with £8 million of SRB resources which will be targeted at small and medium sized enterprises and the employment opportunities of ethnic minorities. It was acknowledged by the local authority that the target area contained the council housing most in need of investment, seven of the council's ten high-rise blocks are located in Ashton and these dwellings contained severe management problems relating to voids, turnover and vandalism.

The Tameside case study makes an interesting comparison with Sheffield. The stock is located on two town centre sites with more than 60 per cent housed in the high-rise blocks. Only 5 per cent of dwellings could be described as traditional family housing.

The ERCF bid for Ashton included £3.3 million of works prior to ballot. This work focused on highly visible investment into the high-rise stock including replacement heating, re-roofing, security improvements, replacement windows, and external cladding and insulation. Resources were also included to provide for the demolition of 100 maisonettes and the construction of 60 – 65 family units for rent on the cleared sites.

Because the proposals for Ashton were developed quickly, it is acknowledged by council officials that, with hindsight, the local authority under-resourced the bid in terms of adequately staffing the implementation team. Initially the only staff resource committed to the project was an assistant director who worked part-time on developing the scheme. This was highly problematic because the Tameside scheme had many of the characteristics of high turnover and fear of crime which ensured that both developing a consensus to support the transfer process and setting up a cohesive shadow board were very difficult.

The formation of a shadow board at Ashton was also highly problematic at the scheme's inception. In July 1996, councillors were asked to nominate five members to the shadow board. In November 1996, the three local ward members resigned from the ruling group as a protest against the proposal to transfer the estates. It took several months for the council to decide who would represent the local authority on the shadow board. Eventually the council nominated two members of the local ward party and a councillor from a neighbouring ward.

The problems associated with developing a coherent and representative group to be nominated by the council were also mirrored with the tenants. Prior to the bid there were no organised tenants' groups on the estates, and little consultation was conducted prior to the bid being submitted. A steering group of eleven tenants was formed from a self-selecting volunteering process, and these eleven tenants subsequently voted for the five tenant representatives for the shadow board. This group did become increasingly more confident over time as the process developed. However, this required considerable effort in terms of capacity building and training by the part-time lead officer who was also responsible for the implementation of pre-ballot investment and developing the company's policies.

In July 1997, the government office for the North West wrote to Tameside MBC and informed them that grant payments were to be suspended subject to a review of the viability of the scheme. The government office had three concerns:

- the membership of the shadow board had not been completed;
- demand for the refurbished product appeared to be questionable;
- the portfolio of property might not be fundable because of its non-traditional construction type, low asset values and high turnover of tenancies.

The council subsequently reviewed the decision by DETR to suspend the scheme and noted a number of problems associated with the implementation of the scheme including the following issues:

- the council's communication with the Housing Corporation, both nationally and locally, required improvement;
- the slow progress of the scheme meant that it was difficult to maintain a positive stream of public relations material;
- the council had not effectively communicated to the DETR the nature of the problems they were experiencing or the strengths of the proposal.

Figure 13: Tameside facts

Property numbers	905
Vote	Yes: 63% No: 35.2%
Turnout	74.6%
ERCF allocation	£9.570 million
Private finance	£8.100 million
Average rent 1997	£41.88
Rent envelope	RPI plus 1% for 5 years
Rent at year 5	£49.74

The suspension of the scheme led to the council reassessing its support for the Ashton transfer. A number of factors were present which caused the local authority to strengthen its commitment to the proposal:

- Securing the improvement of council housing was a key objective to the regeneration of central Ashton. The transferring estates, were located adjacent to a renewal area and within an SRB target area. Both the DETR and the Housing Corporation were strongly supportive of the renewal area.
- The council had subsequently examined the potential to transfer the authorities remaining 17,000 council homes to a new landlord and this proposal had secured political support because of its ability to improve the borough's housing stock and generate capital from sales of housing stock.

- Given the two issues above, the transfer of the estates in Ashton were seen to become strategically important to the regeneration of the borough's principal town and for securing investment in the stock as a whole.

Rescuing the proposal

The council developed a number of measures to reassure central government of its commitment to the scheme. These measures are highlighted in the key points itemised below:

- strengthened the implementation team with two assistant directors working full time on the project;
- secured funding;
- conducted detailed demand analysis;
- developed a strategic regeneration commitment;
- appointed a new type of lead consultant which produced innovative results in the transfer process.

As Figure 3 illustrated earlier in the report, the transfer process involves a large number of interested parties, and therefore the process is dynamic and highly political. Frequently, given the detail and complexity of implementing a negative value urban transfer, developing an effective communication strategy within the local authority can prove to be difficult. Following the completion of the stage one consultation and securing funding, the council appointed a consultant who had very senior local government experience. In conjunction with the lead officers, he reviewed the council's consultation processes not just with tenants, but also with the DETR, the Housing Corporation, funders and staff. The appointment of an independent consultant who understood the political processes was important and he was able to respond to a number of 'blockages' which had been identified earlier by the council's review of the scheme. These problems were solved through the following actions:

- the housing management implications of the transfer were reviewed and circulated to local authority officers;
- a consultancy 'team' was established and co-ordinated;
- the staffing implications in respect of TUPE were discussed with the affected parties and policy guidance was developed;
- a wide ranging consultation strategy was developed which focused on organisations and individuals both within local government, tenants and those affected by the transfer who worked in other agencies.

The development of a consultancy role such as this was a successful innovation in Tameside, and highlights a potential gap in the market for consultants who can offer political management skills and assist with organisational change. It also highlights the need for local authorities to think through their consultancy needs rather than to automatically commission 'off the shelf' packages from firms of accountants who tend to view the concept of lead consultant as being dominated by financial considerations.

The ability of the scheme at Ashton to secure private finance was a key concern of central government and the Housing Corporation. Tameside MBC in partnership with the Nationwide Building Society developed a funding package where private finance was secured on the basis of future cash flows rather than asset values. This funding agreement depended upon the council being able to demonstrate a continuing demand for council housing in Ashton and to highlight effective management arrangements to ensure that the future cash flow is secure. This innovation was assisted by the relatively small size of the scheme – requiring only £8 million of private finance. However, if this approach is successful it may provide finance to other similar estates where there is a high and consistent demand for social rented housing.

Conclusion
In January 1998, the DETR finalised their review of the scheme and allowed Tameside to proceed to ballot. The process of securing the positive result was achieved in a similar manner to Tower Hamlets. All tenants received three visits from council officers who personally delivered the offer documents and arranged times for a one hour presentation to be made in the occupant's home. This case study highlighted the need for local authorities to carefully consider the organisational issues which are involved in stock transfer prior to submitting bids for resources. It also emphasised the importance of developing a communication strategy which is capable of addressing the concerns of a wide variety of interests.

Stoke on Trent: case study

The focus of the transfer proposal at Stoke was the 933 flats which are located at Bentilee, the city's largest estate which contains more than 4,000 properties and is located on the eastern fringe of the city. The area has a population of 13,000 and has an unemployment rate 70 per cent higher than the city average, and poor levels of educational attainment and health. The estate was constructed using traditional construction methods during the 1940s and 1950s but has a poor environment and a monolithic appearance. This combination of a large number of poorly maintained properties and the intensity of deprivation has resulted in the estate being categorised as being in the worst 10 per cent of the city's social rented stock. (Stoke on Trent District Council, 1996). The area was the subject of a successful Round Two SRB bid for £20 million of resources and it was through a dialogue between staff administering the SRB programme at the government office for the West Midlands and local authority officers that the proposal to transfer the flats to a new local housing company was developed.

The proposal to transfer contained a number of adverse characteristics from inception. The decision to focus only on the estate's flatted accommodation meant that the stock was dispersed over a wide area. Additionally, the management issues resulting from the ownership of the most residualised stock were formidable. The turnover of properties was in excess of 30 per cent at the time of transfer, while the stock of voids stood at 120 with only 40 people registered on the waiting list.

In a similar way to Tameside, the proposal to transfer properties at Stoke was opportunistic and relatively small scale. The decision to transfer the ownership of council housing to raise private finance was taken to support the outputs of an SRB bid and not as an integral part of the city's housing strategy. This was reflected in the staffing structure allocated to implement the scheme, which initially involved only an assistant director and administrative support. This team was later strengthened to include housing management staff.

The bid included proposals to refurbish the flats, and particularly focused on the environment, installing parking bays and improving the quality of landscaping. A feature of the Stoke bid was the high proportion of investment (around 70 per cent) which was to be financed through the ERCF grant. Approximately £4.4 million of ERCF resources was made available for pre-ballot works.

Figure 14: Stoke on Trent facts

Property numbers	933
Vote	Yes: 81% No: 19%
ERCF allocation	£10.3 million
Private finance	£4 million
Average rent 1997	Range £17-£40
Rent envelope	1998-1999 RPI, 2000-2002 RPI plus 1%
Average rent at year 5	£30.94

The same intensive approach to securing a successful ballot outcome was deployed in Stoke as had been the case in other areas highlighted in this report and as such does not need repeating here. But, it is worth noting that there was a degree of scepticism amongst elected members who represented the council's interests on the board relating to the desirability of transferring property to Registered Social Landlords. The interviews in Bentilee revealed a difference in the levels of optimism expressed by tenants and elected members in relation to the future viability of the organisation with tenants focusing on the empowerment opportunities for local people, while the councillors felt that this was an approach which had been forced on the local authority by a government which was antagonistic to council housing.

The experience of the transfer process at Stoke highlights the need for adequate committee and reporting arrangements to oversee the creation of new social housing vehicles. The council initially set up a stock transfer panel to protect the council's interests. During the critical nine months between the outcome of the ballot and the transfer date the panel only met once, which led to councillors not being aware of many of the financial and organisational issues which would arise from the transfer of the properties.

As a result of this lack of information the council had to convene an emergency meeting on the day before transfer (March 31) to agree to issue the required environmental warranties necessary to secure private sector funding.

Management issues
The Stoke case study was unique in respect of the attention given to changing management structures and services in the period immediately after transfer. The new organisation has 15 staff and has immediately introduced the following changes:

- housing staff are now expected to operate in a generic way, being responsible for all aspects of housing management;
- customer services officers have been introduced and in future tenants will be interviewed when they enter and exit the stock so that the product can be refined;
- a new simplified void procedure has been introduced with a date order system being supported by the principle of 'reasonable preference';
- focus groups of residents have been established to provide feedback on issues such as management, security and marketing.

The emphasis placed on improving management performance and efficiency is perhaps not surprising in Stoke. The new company has a target of reducing void loss to 8 per cent within three years, and it is the view of the chief executive that the business plan is *"one of the tightest ever audited"*. The new organisation will therefore have to implement efficient procurement policies, effective project management techniques and ensure high levels of income maximisation if it is to remain solvent. Early experience suggests that the focus on increasing the efficiency of management is securing considerable improvements in cash flow. In November 1998, voids had been reduced from a peak of 130 to 28.

Outstanding issues
The decision to implement a transfer based upon a property-type rather than an estate has a number of strategic implications for Bentilee. The ownership of property on the estate is now fragmented, with 1,000 homes sold through the Right to Buy. Many of these properties have not been well maintained, and have an open market value as low as £6,000. Over 900 properties will be fully modernised by the new local housing company. The remaining 2,500 properties are to be partially modernised using SRB and HIP resources. The future regeneration strategy will have to be long-term and based on a strong partnership, if the local housing company is to succeed and the reputation of the estate is to improve. However, the quality of partnership working at Bentilee is variable. For example, while the local housing company has been successful in securing a £15,000 grant from its funders the Britannia Building Society to improve estate caretaking, at the time of writing this new Registered Social Landlord was not represented on the SRB partnership board. A long-term framework for improving and managing the estate has still to emerge, and an exit strategy which addresses these issues will need to be in place before the SRB programme finishes in 2003 if the regeneration of the estate is to be sustainable.

Case study: Hackney

The London Borough of Hackney has consistently been identified by central government as being one of the ten most deprived local authorities in England over the last thirty years. The borough has the highest unemployment in London, the third lowest level of owner occupation in England and fourth highest proportion of households renting from a local authority. In 1994, an external stock condition survey of the borough's 37,000 properties estimated that repairs to the external fabric of the buildings would require £153 million of investment. Further work conducted by the housing department to estimate the total cost of repairs and improvements to the council stock produced an investment requirement of £500 million.

Following the stock condition survey, the council developed a strategy for addressing the worst public sector housing. Five system built estates were identified which required extensive remodelling and demolition. This strategy was labelled the Comprehensive Estates Initiative and sought to raise £282 million of capital investment, of which only 25 per cent will be allocated from the council's resources, the remainder being committed by the private sector and housing associations.

Whilst the Comprehensive Estates Initiative addressed the need to radically alter the worst systems built estates built in the 1960s and 1970s, the council had identified a number of other estates which were constructed predominantly in the 1930s which were in urgent need of comprehensive improvement. These 6,500 properties were located on eighteen estates of which the smallest had 91 units and the largest 1,200. These estates were selected in April 1995 and were incorporated into the borough's Estate Regeneration Strategy, a programme which aimed to facilitate the transfer of public sector housing and attract private finance to improve the estates.

Having clearly identified the estates which the council wished to transfer, the housing department then set out a process to value the estates and select partners. This process is set out in Figure 15. The approach adopted by Hackney LBC was both to develop a menu of options for tenants but also to lever as much additional private sector investment and expertise as possible. Thus during 1995/6 the council divided the estates into six groups of around 1,000 properties and invited three consortia to bid for each group of estates. The consortia included contributions from the following organisations:

- housing associations;
- property developers/companies;
- private finance consultants;
- builders;
- professional support services.

Figure 15: Hackney – steps in the ERS process

	Description	Time frame
Step one	Selection of estates	April 1995 (complete)
Step two	Selection of potential partners (registration of interest)	November 1995 (complete)
Step three	Formation of Estate Development and Management Committees (EDMCs)	Begun July 1995: ongoing
Step four	Selection of consortia	February – July 1996
Step five	Formation of the detailed proposal	August 1996 – March 1997
Step six	Presentation of plans	April 1997
Step seven	Ballot of leaseholders and tenants	Autumn 1997
Step eight	The final decision/transfers	From early 1998

The proposals were then presented to tenants and council representatives who constituted estate development and management committees which selected the successful consortia on the basis of thirty three criteria covering works, management and finance.

As a result of developing a process to transfer estates which predated the introduction of the ERCF by more than twelve months, the council made a bid in the first round of the competition to transfer 3,112 properties located on eight estates to new landlords. The bid was successful and £16,532 million was allocated from the ERCF budget.

None of the proposals chosen by the estate development and management committees involved the development of an independent local housing company and so it is not appropriate in this report to highlight the development of individual schemes. However, there are a number of issues relating to the transfer strategy in Hackney which are worth highlighting, relating to the process of valuation and the clarity of the borough's housing strategy.

Valuations

The initial dowry requirement to facilitate the transfer of the 3,000 properties in Hackney was calculated on the basis of stock condition information supplied by the local authority to the consortia. Following the selection of successful bidders, scrutiny of the methodology used in the stock condition survey revealed that no allowance had been made for the condition of utility services which supply the estate. Additionally, the initial stock condition survey was based on a sample of 5 per cent of properties, which, because of the poor quality of the stock, is now considered to be too small a sample, and produced inaccurate cost estimates.

A second survey with a 20 per cent sample provided higher quality estimates and increased costs substantially. The combination of deficient stock data, and reprofiling cash flows to ensure that debt was repaid by year twenty five in the business plan, increased the dowry requirement to £47.5 million. The result of this was that only 978 units at Kingsmead were able to transfer in the first round of ERCF[3] with a public subsidy of £14.8 million compared to a projected ERCF contribution of £1.8 million. Following a period of negotiation, DETR agreed to increase the ERCF allocation to £10.6 million with the council and Shaftesbury Housing Association providing the balance.

Clarity of housing strategy

The London Borough of Hackney has developed a clear housing strategy to address the most pressing problems of its large public sector housing stock. Through a process of clearance, redevelopment and transfer the borough is developing an enabling framework which it hopes will attract £430 million of investment and improve estates containing more than 10,000 properties. Given the scale of this task, ensuring good communication between a wide range of partners and that the quality of data is sufficient to support the regeneration activity, is difficult. However, because the objectives of the Hackney strategy are clear, in the case of the Kingsmead transfer the standard of refurbishment was not lowered as costs increased and the council was able to support the transfer with an additional contribution of £3.6 million of its own resources.

3 The remaining 2,200 units were delayed and financed through Round Three of the competition.

Chapter Five

Issues and conclusions

The combined experience of the local authorities who have pioneered the first urban local housing companies highlights issues of good practice, particularly in relation to consultation, communication strategies, political reporting arrangements, area selection, data analysis and the development of comprehensive housing and regeneration strategies. These issues will remain important to the implementation and development of regeneration policy into the new millennium. Conversely, issues which can hinder or lead to the termination of a transfer proposal within disadvantaged urban areas include the development of over complex proposals which require the consent of a wide range of interests, over estimation of the ability of the host organisation's capacity to deliver a series of complex initiatives, and the failure to fix a medium term strategy for the management of change in a complex urban environment.

The first independent local housing companies with negative valuations have all been piloted in areas of acute socio-economic deprivation and frequently are characterised by high levels of tenancy turnover and general disillusionment with the ability of agencies of government to deliver improvements in quality of life and living standards. In some respects this is the least fertile ground to attempt to develop an experiment which is technically highly complex, difficult to conceptualise and involves a number of potentially well organised stakeholders. However, in spite of the difficulties which local partnerships have experienced in developing independent local housing companies, the initial outcomes of the transfers have produced a number of improvements over previous estate based initiatives, most notably in respect of the following:

- **Standard of refurbishment**
  Unlike initiatives such as the Estate Action Programme, the standard of refurbishment proposed in the local housing company areas will establish a thirty year life based on a comprehensive package of improvements. This outcome is a requirement of the financial institutions which secure the loans against the value of the property and assess the business plan to validate a thirty year income stream for the company.

- **Democracy**
  The governance structure of the local housing company model ensures that there is a pluralism to decision making which is not always apparent in other models of social housing.

- **Long-term planning**
  The new company can take a strategic long-term view of planning investment and regeneration activity. Unlike other initiatives such as Estate Action, City Challenge and Urban Development Corporations, local housing companies do not require an exit strategy as they form long-term community regeneration commitments based on the security of an asset base and an income stream.

Despite the mixed initial outcome from the first round of the ERCF programme in respect of the creation of independent local housing companies a number of important lessons can be drawn from the collective experience. These can be divided into issues which affect the transfer of council housing, and those which are relevant to the development of regeneration proposals in deprived urban areas.

Transfer issues

The development of housing transfer proposals have required a high level of technical information relating to:

- **Estate selection**
  The evidence from the first round of the ERCF is that estates in the Midlands and the North of England which have low and falling demand and have a high proportion of non-traditional property are unlikely to prove to be viable as independent local housing companies. Conversely the highest quality estates, i.e. those located in Sandwell, also failed to achieve tenant consent to transfer. There is therefore some evidence that it is the ‘middle-ranking’ estates in terms of stock condition and management performance which are most suitable for this type of transfer.

- **Stock condition**
  The experience in Hackney, Sheffield and Tower Hamlets has been that local authority stock condition information has been neither adequate to establish the viability of the new organisation or to provide a good estimate of the amount of dowry required to secure transfer. There is a strong case therefore, that local authorities should invest in an independent stock condition survey and security valuation prior to proposals being included in regeneration programmes such as the New Deal for Communities.

- **Transfer process**
  The ERCF bid process required detailed proposals in relation to organisational structure, rent levels and levels of investment. This high level of detail often created a sense of mistrust by tenants’ representatives who felt that many important decisions had already been taken prior to residents being consulted. Clearly both elected members and residents needed to be consulted and extensively briefed prior to a bid being submitted, however, it was frequently the case that the process, once started moved so quickly that tenants and

politicians struggled to cope with the volume of information supplied. This problem was compounded by the need to revisit technical and financial assumptions – a process which can cause confusion and heighten mistrust.

Delivering the transfer

The process of delivering a negative value stock transfer can take 2 to 3 years to complete. There are a number of decisions which could be taken at the very beginning of the process to enable a successful transfer. These decisions are summarised below:

- **Staffing arrangements**
  It is important that local authorities recognise that securing a transfer is a staff intensive activity. Where bids have been made on an opportunistic basis there is evidence that insufficient staff resources have been allocated resulting in delays to the scheme. Even where large staff resources were made available in areas such as Sandwell, the scale of the task faced by officers was not well understood by local or central government. It is important that the delivery arrangements are seen to be sufficient to deliver transfer by local and central government before funding is approved.

- **Communication strategy**
  A well structured communication strategy which engages with the different interest groups involved is likely to prevent corporate blockages and assist in developing a consensus that the proposal be pursued to the ballot. The preparation of training days and materials for shadow board members should be an integral part of the process.

- **Political reporting arrangements**
  The case studies illustrated in this report highlight two opposite approaches to organising political reporting structures to oversee the transfer process. In Sandwell a heavily bureaucratic approach was devised with four council committees taking an interest in the ERCF bid. In contrast, the transfer panel in Stoke failed to meet for a year prior to transfer, thus necessitating an emergency meeting to discuss the implications of the council issuing environmental warranties the day before the transfer occurred. In practice, the most effective arrangements are likely to follow the Tower Hamlets approach where a streamlined reporting system was devised which was capable of delivering information to elected members at critical moments during the process.

- **Immediate operational issues**
  Following a successful ballot a number of key operational issues have to be addressed. Some of these are practical, such as securing permanent office accommodation, new administrative systems and transferring and appointing staff, however, others are strategic in nature relating to management and

regeneration issues. In most cases thinking as to how a management service might be delivered differently by a local housing company had not been prioritised. The obvious exception to this being at Stoke where necessity dictated that the issue be addressed.

Estate transfers and regeneration: a new framework

Many participants in the ERCF programme thought the process associated with the competition to be confusing. The competition was guided by clear value for money criteria which placed emphasis on achieving transfer at the lowest cost to the public sector. This in turn placed pressure on contestants to produce bids which they thought were broadly acceptable to the DETR on a cost basis. However, of the case study transfers only the two smallest at Tameside and Stoke were delivered to the initial budget agreed at the time of the bid. Sheffield was unfundable and Hackney and Tower Hamlets required collectively an **additional** £20 million to transfer fewer than 3,000 properties. The short time scales associated with bidding often meant that assumptions relating to expenditure and income generation were made based on inadequate data. These assumptions were frequently recalculated later in the light of new information and guidance resulting in (sometimes) fairly radical changes to the initial proposal. This in turn can lead to confusion and distrust amongst stakeholders who fail to understand the process.

The new framework for estate transfers announced through the Comprehensive Spending Review proposed that future transactions are funded from HIP resources or the New Deal for Communities. The additional time to formulate proposals which either HIP or NDC funding provides should enable the transfer proposal to be made having agreed priorities, explored options and assembled robust information. The new framework for transfers which emerged during 1998 could be strengthened through guidance given to local authorities who are bidding for HIP or NDC resources for transfer. This guidance could include the following:

- A more efficient way of measuring costs, assuring high quality data and ensuring the involvement of all stakeholders in the bid would be for the DETR to provide seed-corn funding for a feasibility study which would assess both the viability of a local housing company and the prospect of securing tenant support. Then, having accurately determined the funding requirements and the policy framework for the company, public sector resources could be identified to finance the transfer from the appropriate public sector spending programme.
- Given the experiences in Sheffield, Hackney and Tower Hamlets, guidance should be issued to local authorities on stock condition surveys and the standard required to achieve accuracy and funding support.
- Local authorities and central government should consider economies of scale. Overly elaborate structures and the management of multiple transfers may have been too ambitious in the case of Sandwell, and it is questionable whether a three year process involving senior staff from local government, the DETR and the Housing Corporation can be viewed as an efficient use of resources to facilitate the transfer of several hundred properties in a large urban area.

- Currently little attention is given to developing a housing management strategy to ensure that the transferred estates can achieve their objectives of remaining socially and financially viable over the 30 year life of the business plan. Frequently, management structures are influenced by TUPE arrangements and the historical management cost base. It is suggested here that the method of appraising future bids for resources should include an assessment of management strategy within the context of the prevailing social and economic problems and the objectives of the business plan.

Regeneration issues

A comprehensive approach to regeneration which fully integrates housing spending and activity into wider economic and social improvement programmes is a stated objective of central government. A comprehensive approach to regeneration was also seen by all the stakeholders in this study to be essential to the long-term viability of the new Registered Social Landlords. Without exception, each of the case study areas were located within or adjacent to SRB target areas. However, while the ERCF and SRB programmes were running in parallel, in reality linkages between housing and regeneration programmes were not particularly strong. There are good practical reasons for this, not least of which is the onerous volume of work required to secure a housing transfer, which militates against effective links between housing and regeneration programmes. Despite these operational difficulties there are a number of initiatives which local authorities could adopt to ensure more effective integration, including the following:

- The links between housing and regeneration strategies for the local authority area should be explicit. This would enable local authority policy makers and external partners to incorporate housing initiatives into local regeneration strategies at the design stage, rather than ‘bolting’ them on at a late stage in the process.
- Regeneration partnerships which have bid successfully for SRB resources have become skilled in using data sets to build a detailed statistical analysis of socio-economic characteristics in target areas. Local authority housing departments need to invest in the research capacity to match socio-economic data with highly reliable management and stock condition information to enable transfer proposals to be integrated with wider socio-economic programmes designed to combat social exclusion.
- The local authority should be realistic about time scales. A successful transfer may take between seven and eight years to complete from design to the completion of the investment programme. If the transfer is of sufficient scale to be a significant factor in the regeneration of a neighbourhood or district, then the phasing of wider regeneration initiatives should be sensitive to the requirements for intensive consultation and policy planning activity which is required before ballot.
- A successful housing transfer and regeneration scheme is likely to be based upon a commitment to genuine partnership. This will be reflected in the quality

of consultation with tenants prior to ballot, but significantly it should also include a commitment to involve the new Registered Social Landlord in regeneration partnerships set up to administer programmes such as the SRB and NDC. The sponsoring local authority should therefore have a clear view of how it wishes to engage with the new RSL after the ballot. Such clarity was not always apparent amongst the case studies included in this study where transfer was on occasions seen as an end in itself.

Future issues

This research has only been able to focus on the processes involved in securing the transfer of the first negative value urban housing companies. Of the issues which will need further examination in the future perhaps the two most important aspects will be the operation of the board, and the financial performance of these new housing vehicles. Financing and governance are the two unique features of urban local housing companies and the experience so far suggests that where the companies have secured a successful ballot result, funding has been obtained and the boards have been operating on a consensual basis. However, these issues will need to be the subject of further research before the experiment could be considered to be a success.

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