

The evolution of stock transfer housing associations

Large-scale ownership transfers are transforming social housing throughout Britain and, according to new research, have spawned more than 180 new housing associations since 1989. Whilst they are a diverse group, these agencies arguably represent a new class of social landlord. Whilst clearly distinct from local authorities, they tend to differ from traditional associations in terms of their stock profile and local focus, enduring close ties with founder local authorities, substantial tenant and (in England) councillor participation in governance and longer-term potential to generate substantial revenue surpluses. This study of pre-1999 transfers, by Hal Pawson and Cathie Fancy at Heriot-Watt University, finds that:

-  The transfer process has tended to have a liberating effect on housing staff with the move to a more inclusive culture in which individual initiative is encouraged.
-  Transfers have generally fostered staff ownership of corporate objectives to a degree far greater than in predecessor landlords.
-  Whilst transfer associations' initially high indebtedness might be expected to generate a 'hard-nosed' approach to housing management, this does not generally appear to be borne out: transfer landlords are much less likely to evict their tenants than traditional associations.
-  Substantial creativity has been displayed by transfer associations in their efforts to keep faith with business plan targets and in attempting to counteract continuing stock losses mainly due to the preserved Right to Buy.
-  In establishing themselves as financially sound, independent agencies with cohesive governing bodies, transfer associations often face considerable stresses in their early years.
-  The challenges being encountered by recently-established transfer associations (in particular, 'partial transfer' landlords) tend to be greater than those which faced their longer-established counterparts.

Background

In the past 15 years, social housing in Britain has been substantially restructured through the transfer of former council stock into housing association ownership. Associations now manage over a third of all social sector dwellings – a threefold increase on the percentage in 1991.

Since the transfer process began in earnest in the late 1980s, more than 870,000 (tenanted) homes have been passed from state ownership (local authorities, new town development corporations or Scottish Homes) to housing associations (and, in a few cases, non-registered housing companies). By early 2003, 111 local authorities in England had transferred all their stock to housing associations. In addition, over forty authorities (twenty-three in England and nineteen in Scotland) have carried out 'partial stock transfers', where a council disposes of a package of tenanted housing whilst also retaining stock in its ownership.

A large majority of transferred stock has been taken into ownership by newly created associations, more than 180 in all. In most cases, these have been set up as free-standing bodies, though a few were established as subsidiaries of existing associations. Transfer associations are continuing to expand and now account for almost half of total association stock.

Organisational structures

The structure of newly established transfer housing associations typically differs substantially from that of pre-transfer housing services. Whilst most of their staff may be inherited from the predecessor landlord, many will have been located outside the department primarily responsible for housing. Compared with predecessor landlords, transfer associations usually operate with flatter staffing structures. These are preferred, being consistent with empowering staff and devolving managerial responsibility. Such changes are generally seen as having followed directly from the switch from local authorities (or Scottish Homes) to association status rather than simply reflecting ongoing trends affecting social landlords across the board.

There has been a tendency among transfer associations for early experimentation with relatively generic, often decentralised, approaches, followed by moves towards more functional specialisation and/or centralisation. This pattern is often associated with balancing aspirations to improve management efficiency and effectiveness in the context of demanding business plan income targets.

Most partial transfer associations have been created as 'group subsidiaries', and the majority of whole stock transfer associations have examined or progressed the setting up of group structures since their creation. By 2002, only a minority of whole-stock transfer associations remained as 'free-standing' unitary organisations. Particularly where they involve

the possibility of collaboration with another landlord, deliberations over the creation of group structures have substantial potential for causing conflict within transfer association boards and between associations and their local authority partners.

Staff management and organisational culture

Transfer housing associations commonly emphasise the need to secure widespread employee ownership of business plan objectives and targets. The success of such strategies is clear from the current research evidence as well as from a recently published study (*The impact of stock transfer on staff*, MORI, 2003). This found that staff of transfer associations have an unusually high degree of understanding of their employer's objectives, which 69 per cent of staff at all levels say they understand (31 percentage points higher than the local authority norm). Such 'ownership' forms an essential foundation for the development of a performance culture.

From the viewpoint of transferring staff, the post-transfer regime is widely seen as replacing a bureaucratic, hierarchical work environment with one which is more egalitarian, inclusive and encouraging of initiative.

Whilst transfer associations are increasingly moving away from linkage with the annual local authority pay round, and some have experimented with 'private sector' approaches such as performance-related pay, there is no clear trend towards the more widespread adoption of mechanisms of this kind.

Corporate governance

Particularly in England, transfer housing associations stand out as distinct from their 'traditional association' counterparts in that their management boards typically involve substantial tenant and council nominee (usually councillor) representation. Those set up since 1996 have generally adopted the Local Housing Company model, where there is equal representation of tenants, council nominees and 'independents'. Among English transfer associations, however, there are signs of a limited tendency for reducing councillor board representation, sometimes in favour of an increased tenant presence. By comparison with the other main 'constituency' groups, councillor board participation lacks stability and continuity. This restricts the scope for the accumulation of knowledge and experience and, hence, limits the typical value of councillor board input. Particularly in a transfer association's early days, it is not unusual for councillors to be seen as attempting to wield influence and conduct meetings in an inappropriate 'council style'. In part, this can reflect a mistaken belief that the new body is susceptible to council direction and control.

Whilst their attendance record is typically good, there are concerns that tenant board members do not always play a full part in board decision-making. In spite of a frequently substantial commitment by associations to board member training, there is a fairly common staff perception of tenant board members playing a 'silent partner' role or fully engaging only with day-to-day operational issues (rather than more strategic matters).

In the evolution of board operation, initial factionalism tends to die away over time – though this 'coming together' process is sometimes stimulated by regulatory intervention or advice.

Housing management

In general, the switch to housing association status involves the adoption of a wide range of policies to comply with the formal regulation operated in the sector. Actual policy changes are, in many cases, symptomatic of moves towards a more 'customer-focused' operational style. In balancing business and social objectives, transfer associations tend to see themselves as operating 'tighter' but not necessarily 'tougher' approaches, for example in managing rent arrears.

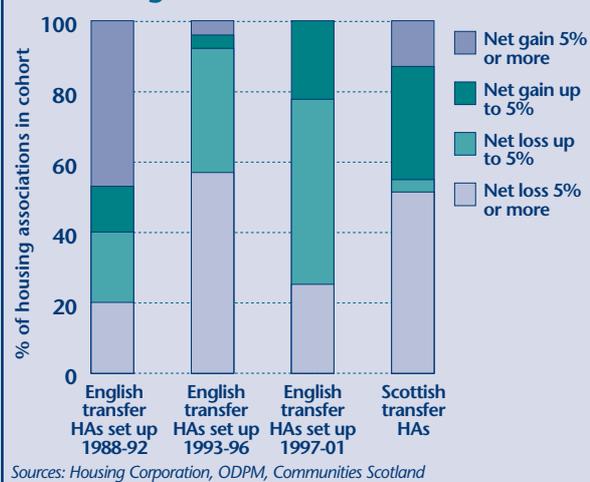
In terms of their propensity to evict tenants, there is no evidence to support the hypothesis that transfer housing associations are habitually tough landlords by comparison with other associations. Indeed, transfer associations' eviction rates are well below those of other classes of social landlord (4.3 per thousand dwellings in 1999/2000 for whole stock transfer associations, 5.5 for partial stock transfers, and 7.0 for conventional associations). For Scotland, data is available to compare transfer associations' eviction rates with those of local authorities. Again, transfer associations have lower rates.

Stakeholder views chime with previous research evidence showing that housing management performance (and average tenant satisfaction) tends to improve following stock transfer. There is, however, no clear evidence for the belief that transfer associations, as a class of landlords, outperform comparable local authorities. Whilst transfer landlords may be more tenant-influenced, tenant-friendly and consumerist in outlook, it is not clear that they are generally 'higher performing' housing managers than local authorities. Within the housing association sector, nevertheless, they set standards which others struggle to match.

Finance and development

Particularly in their early years, transfer associations' highly indebted status and their need to honour often very specific 'transfer promises' makes them highly vulnerable to unforeseen changes in the economic or regulatory environment. This can impose substantial pressures on inexperienced management boards,

Figure 1: **Transfer housing associations in England and Scotland, 2002: net change in housing stock since transfer**



sometimes necessitating regulator intervention. Indeed, nearly a fifth of transfer associations have given rise to serious (Housing Corporation) concerns in respect of their financial viability or governance (*Improving social housing through transfer*, National Audit Office).

The need to re-invest in existing housing is the main motivation for most stock transfers, and the research confirms the recent National Audit Office finding that most stock improvement 'transfer promises' have been honoured. At the same time, virtually all transfer associations in England – and most in Scotland – are also active developers of new housing. Around half the transfer landlords in England have been contractually required to develop new homes through clauses in transfer agreements. Collectively, transfer associations have built around 50,000 homes since 1988.

Nevertheless, transfer associations' annual stock losses (mainly through Right-to-Buy sales and – to a lesser extent – demolitions) considerably exceed stock expansion through acquisition and development. Hence, more than two-thirds of transfer landlords have seen their stock decline in net terms since establishment (see Figure 1). Even among the longest-established organisations, this is true of nearly half. One in fifteen transfer landlords in England and one in four in Scotland have seen total stock contract by more than 10 per cent. Such trends will tend to drive up unit overheads, ultimately posing a potential threat to organisational viability.

Over half of English pre-1999 transfer housing associations have developed housing outside the boundaries of their original 'home local authority'. However, whilst 'out of area' development amounts to nearly half of all new homes built by transfer associations, this is strongly influenced by the activities of 'early cohort' landlords, mainly in the first

half of the 1990s. Few of the more recently set up associations anticipate 'out of area' development on any scale in the foreseeable future. It is, therefore, highly unlikely that many of these bodies will quickly develop into major regional players, as some of their 'first wave' counterparts have done.

In the longer term, provided that business plans do not come completely unstuck, most transfer landlords can look forward to developing a very strong financial position, generating accumulating revenue surpluses. In part, as the National Audit Office has recently pointed out, this partly results from the valuation model commonly used to facilitate transfers and raises questions about regulators' leverage on how such surpluses are disbursed.

Relationships between transfer housing associations and local authorities

Nearly three-quarters (73 per cent) of transfer associations set up in England believe that they have a 'special relationship' with their founding local authority. This is equally true of longer-established and more recently set up landlords. In Scotland, where most transfer associations have a different origin and where local councils have never had a role in funding association development, such links are much less common.

In part, an ongoing special relationship between a transfer association and its founding local authority is often attributable to a persisting sense of 'ownership' on the council's part as well as to the association's typical dominance of the local social housing scene in purely numerical terms. Other important factors frequently include continuing functional integration between the parties (such as where transfer associations play a contractor role in the provision of services to the council and/or buy services from it).

Tensions, however, often attend the local authority/transfer association relationship. Some of these (such as in relation to a transfer association's role as homelessness services contractor) are quite distinct from those common to relationships between local authorities and traditional associations. These mark out the interaction between transfer associations and their local council partners as being different in kind to that involving local authorities and conventional associations. Whilst such stresses include operational issues resulting from functional integration, others are more strategic in nature. In particular, a transfer association's attempts to counter unforeseen budgetary problems (for example, by centralising services or contemplating merger with another association) may attract strongly expressed concerns on the part of a founder council which sees such plans as contravening pre-transfer undertakings.

Stresses between transfer associations and founding authorities are often at their most acute during the immediate post-transfer period, as both parties adjust to their respective roles under the new regime. As far as longer term changes are concerned, only a third of English transfer associations believe that their relationship with their home council has subsequently become more distant than in the immediate post-transfer period. In Scotland, where most such relationships start from a low base, most transfer associations see themselves as having moved closer to their respective home authority.

Future prospects

At the same time, there is considerable differentiation within the transfer association sub-sector. More recently created organisations are generally operating from a less favourable base and will perhaps always have less scope than the most fortunate older organisations. Similarly, with prospective changes in the transfer regime (such as affecting stock valuations and the balance of advantage between partial and whole stock transfers), the newly-created transfer landlords of the future may have different prospects from their longer-established counterparts.

About the project

The research focused on transfer landlords in England and Scotland created before 1st April 1999. It encompassed organisations created through transfers from local authorities and from Scottish Homes. The study involved four main elements: interviews with national stakeholder agencies, analysis of regulatory and other secondary data, a postal survey of transfer landlords, and case studies focusing on twelve transfer landlords.

How to get further information

The full report, **Maturing assets: The evolution of stock transfer housing associations** by Hal Pawson and Cathie Fancy, is published for the Foundation by The Policy Press (ISBN 1 86134 545 3, price £14.95).