findings

Emerging issues for independent local housing companies

In 1995 the Conservative Government created the Estate Renewal Challenge Fund to facilitate the transfer of run-down urban council housing to new landlords which could include local housing companies. A new study carried out by Birmingham University highlights the experiences of the local partnerships which have been involved in developing the first local housing companies. The research finds:

- **The development of local housing companies in urban areas has resulted in improvements in the outcomes for estate-based regeneration, most notably in respect of the standard of refurbishment achieved, pluralism in decision-making and the long-term planning of investment and regeneration activity.**
- **Estates suffering from low demand, high investment needs and low asset values are unsuitable for a transfer initiative, unless they are packaged within a much larger stock transfer initiative.**
- **All those involved in this study saw a comprehensive approach to regeneration as essential to the long-term viability of the new Registered Social Landlords (RSLs). However, within the case studies, transfer was on occasion seen as an end in itself. The sponsoring local authority did not always have a clear view of how it wished to engage with the new RSL, after the ballot.**
- **Transfer was not an easy option. Delivery could take two to three years. The process put intense pressure on the partners involved and perseverance was required. No single template emerged from the study, models were based on local circumstances.**
- **Determining the funding requirements and the policy framework for the company could prove problematic and expensive. This might be alleviated if government provided funding for feasibility studies to assess the viability of a local housing company and the prospect of securing tenant support.**
- **The researchers conclude that local authorities sponsoring a stock transfer need to:**
  - **deploy sufficient staff with the appropriate skills to deliver the proposal;**
  - **have a well-structured communication strategy to service all interested parties;**
  - **develop a streamlined political reporting system to brief elected members at critical moments during the process.**

JOSEPH ROWNTREE FOUNDATION

JUNE 1999

Background

Between 1988 and 1998 more than 260,000 council dwellings were transferred to housing associations which raised more than £4 billion of private finance to purchase and improve the properties. However, of the sixty-eight transfers which proceeded prior to March 1998 only two (containing 2,900 homes) were located in disadvantaged urban authorities. This lack of transfer activity may be due to the fact that the extent of disrepair in urban areas with poor quality council housing meant the stock would not generate a capital receipt sufficient to clear the outstanding debt and allow reinvestment in other council priorities.

In 1995, the Conservative Government created the Estate Renewal Challenge Fund (ERCF) to finance the transfer of poor quality urban housing which had a negative value to new Registered Social Landlords. This included housing associations and, for the first time, local housing companies which could have equal representation for elected members, tenants and independents on the Board of Management. This study focused on the six proposals to create the first independent local housing companies which were financed under the first round of the ERCF. Table 1 shows that, of the six proposals, four will successfully transfer properties to new local housing companies. This will raise around £47 million of private finance.

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

Area	*No of Properties*	*Successful Transfer*
Sandwell	7,053	X
Sheffield	3,000	X
Stoke-on-Trent	925	√
Tameside	904	√
Tower Hamlets	1,852	√
Hackney	3,112	√ [1]
Total	**16,846**	

1 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

Despite this success, the three largest proposals 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 in Hackney the project was delayed because of large increases in the 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 the Labour Government. While the first attempts to develop independent local housing companies have generated lessons and experience directly relevant to the development of regeneration programmes and local housing strategies, the new companies will continue to evolve and adapt during the next few years. Therefore the issues raised in this report only reflect the first stages in the development of this new social housing vehicle.

Transfer process

The process of transferring council housing is a complex activity which involves many agencies and potentially thousands of tenants. 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 Department of the Environment, Transport and the Regions (DETR) estimates that the process takes between eighteen and twenty-two months. However, for some ERCF-funded transfers this time period has been substantially longer, with some transfers from the first round not being completed at the time of writing - some 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. 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 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 issues of communication and management are further complicated by the scale of consultancy services required to secure transfer. For example, the aborted transfer in Sandwell had a budget of £3 million. The majority of these resources were to be allocated to private sector consultancies to facilitate the transfer and secure private finance. Experience suggests that local authorities should seek consultants who can offer political management skills and assist with organisational change.

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

The first round of the ERCF has 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. However, 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.

The main lessons

There is some evidence that the ERCF programme has been difficult to administer and that the resulting transfer process has been hard to understand for tenants, elected members and council officers. 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.

It is not surprising that there has been a mixed outcome to the projects funded via ERCF Round 1 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.

Many participants in the ERCF programme thought the process associated with the competition was confusing. The short time-scales associated with bidding often meant that assumptions relating to expenditure and income generation were made with 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.

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. Additionally 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. There is, however, a need for local authorities 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.

Conclusion

The researchers conclude that a more efficient way of measuring costs, assuring high quality data and ensuring the involvement of all stakeholders in the bid would be for 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.

Additionally, 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 would also need to include a commitment to involve the new Registered Social Landlord in regeneration partnerships set up to administer programmes such as the SRB and New Deal for Communities. 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. Finance 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.

About the study

This study involved a range of research and analysis as well as a review of bidding documents, consultancy reports and analysis of available financial information. Original research included face-to-face interviews with local authority officers, elected members, tenants and independent board members in Sandwell, Sheffield, Stoke-on-Trent, Tameside, Tower Hamlets and Hackney.

How to get further information

The full report, **Local housing companies: Progress and problems** by Brendan Nevin, is published for the Foundation by the Chartered Institute of Housing (price £12.95 plus £1.50 per copy p&p, ISBN 1 900396 73 4).