Does size matter

– or does culture drive value for money?

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Summary

1 Introduction

In 2005 CIH produced its briefing *Is big really best – or can small and friendly deliver?* The publication considered the impact of size in relation to efficiency and performance of housing associations in England, and whether particular types of association were better performers. Debate at the time was in part driven by the regulators move to invest in fewer developing associations and the regulator's expectations around the outcomes of merger activity in terms of organisational capacity and services to tenants.

Today, fundamental changes to the economic climate, regulation and investment funding models are likely to have a profound impact on the operating environment for housing associations in England. With increased regulatory emphasis on governance, viability, and value for money (VFM) it is timely to revisit our earlier research and reconsider the issues of scale and diversity to determine what makes for the 'best' organisation. This report considers how well-equipped the sector is to respond in practice to the policy drivers around efficiency and VFM, and to make best use of its capacity both now and for the future. It also raises questions around how surpluses are being used by those associations who are not currently developing or investing in communities. At the time of publishing this research, the TSA is currently undertaking consultation with the sector on its revised Value for Money Standard.

We have revisited the approach taken when producing *Is big really best – or can small and friendly deliver?* to consider how issues such as size, structure and geography impact on the efficiency and performance of housing associations today. How these factors affect the sector's ability and capacity to respond proactively to its changing operational environment, while at the same time delivering efficient services to tenants and customers?

Neither this summary nor the full report are intended to give a definitive analysis of the issues around size and structure of the sector; neither do they represent the views of any of the organisations in the study. Rather, they form a discussion document intended to encourage and take forward a debate within the sector about these issues. The full report *Does size matter – or does culture drive value for money?* can be downloaded from www.cih.org

Methodology

Given the increasingly competitive process to secure development funding and the increased emphasis by the regulator on efficiency and value for money, this research has focused heavily on issues of overall costs and service delivery.

Regression modelling is a statistical technique which allows the effects of a particular factor to be isolated while all other factors in a model are held constant. In regression analysis the relationship between a dependant variable and one or more independent variables is tested. This report considers the key findings of the TSA regression analysis of overall housing costs, and HouseMark regression analysis of cost/performance for both housing management and repairs models.

The three key sources of evidence:

- HouseMark's cost and performance data. The analysis was based on approximately 297 HouseMark core benchmarking returns for 2009/10, of which around 250 provided a complete data set for modelling purposes.
- The TSA research *Understanding unit costs of housing associations: regression analysis* published earlier this year. Based on around 320 complete data sets, over a 6 year period to 2010. This was supported by additional TSA analysis looking at cost drivers.

- Detailed interviews and visits to three very different housing associations, which each place a strong emphasis on efficiency and VFM:
  - *Affinity Sutton.* A national association with over 56,000 units, located mainly in the South and East of England.
  - *Bromford Housing Group.* Based primarily in the Midlands and South West with over 26,000 homes.
  - *Soha Housing.* Stock transfer association with over 5,500 homes based in Oxfordshire.

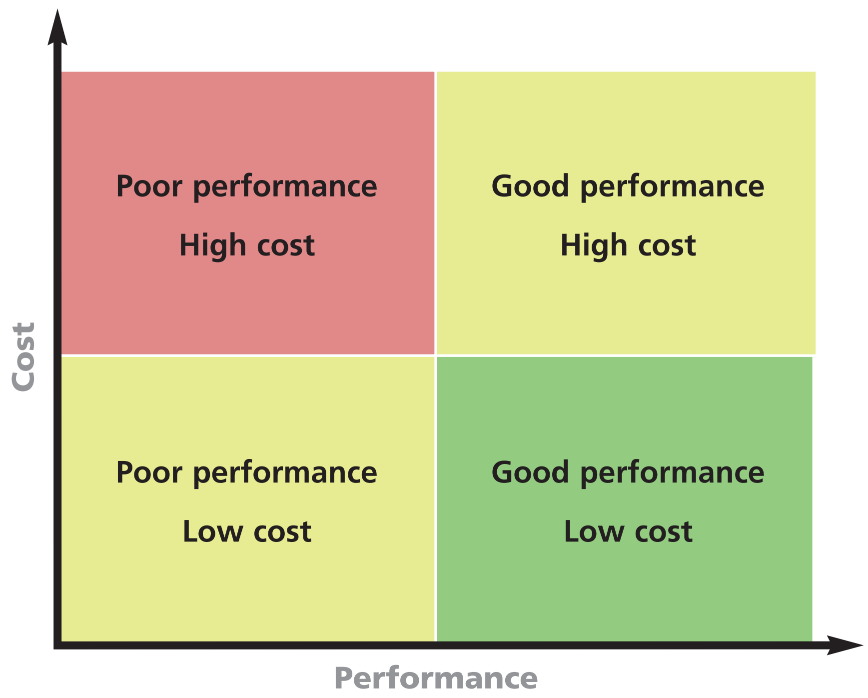
In terms of evaluating VFM, both the TSA and HouseMark approaches are important, but tell us something different. The TSA data covers associations with more than 1,000 units. HouseMark data has no specific cut-off in terms of numbers of units, but there are only a few associations with less than 1,000 units.

How was 'best' defined?

For the purpose of this research project, 'best' has been defined using a combination of cost measures and performance indicators which are collected and validated by HouseMark.

We have based our determination of 'best' around a quadrant plot of performance versus cost, where associations lying in the 'above median performance, below median cost' quadrant (coloured green in the diagram below) have been labelled 'best' for the purpose of this analysis.

HouseMark quadrant plot of performance versus cost.



What did the research tell us?

Findings from the report are presented across the following three areas:

- costs, performance and economies of scale
- scale, diversity and local delivery
- future options: diversification and developing into new markets

Key findings

Cost, performance and size are not directly linked

There is little evidence that size, better quality services and lower costs are related, with significant variations in cost between associations existing within the sector. Indeed, there is evidence of a correlation between high cost and poor performance, which can be interpreted in different ways.

Scale alone does not automatically provide efficiency

Analysis of both HouseMark and TSA data did not provide any statistical evidence of economies of scale to be achieved through size.

Mergers offer no guarantees of improvement

The research found no automatic benefits for effectiveness and efficiency from mergers. However, the two larger case study associations Affinity Sutton and Bromford Housing Group, are clear that growth brings with it significant opportunities for scale-related efficiencies, though these are not generated by increased size alone. Organisational transformation is necessary in order to benefit from, and maximise, efficiencies as the opportunities arise.

The importance of emphasising V in VFM

Evidence from all three case studies suggests that associations need to make clear decisions about how they get the best VFM whilst pursuing their organisational values and priorities. It is important that the focus is not principally about cost savings and financial improvement, or driven purely by a regulatory standard. VFM should be integrated into an association's culture as a matter of course.

Costs: four significant factors

The TSA's regression analysis of overall housing costs shows that four measured factors explain over 50% of the cost variations: deprivation, regional wages, decent homes and supported housing. Deprivation and region of operation also feature as factors in HouseMark analysis.
With the likely impact of economic pressures being increased deprivation amongst tenants this will present ongoing challenges to associations in terms of costs and performance.

2 Costs, performance and economies of scale

Cost trends

In today's operating environment there are a range of pressures which are driving associations to be more efficient and forcing associations to look hard at their costs. In particular:

- The general economic climate, rising inflation and uncertain debt re-pricing costs.
- The new funding regime for development, with its emphasis on sweating assets and increasing debt levels.
- Increased regulatory emphasis on governance, viability and delivering VFM, with the onus on landlords to develop their own approaches to the way they manage their businesses, services and assets.
- Planning for the introduction of affordable rent, fixed-term tenancies and the changes in welfare benefits and the end of direct Housing Benefit payments, which combined with the general pressure on incomes for tenants is likely to make managing tenancies and collecting rent more challenging and expensive.
- Increased competition for associations providing care and support services.

Evidence that associations are now looking harder at their costs can be seen from the global accounts 2010[1] which found that 'for the first time in many years, operating costs per unit decreased in real terms, particularly in management and major repairs' and that operating margins increased during the financial year from 14% to 18%. TSA analysis[2] shows that prior to reducing in 2009/10 operating costs have historically risen year on year since 2005. Average annual growth rate in nominal operating costs per unit, at 3.6 per cent between 2005 and 2010 was considerably above inflation.

More information: Global accounts can be found at: **www.tenantservicesauthority.org/server/show/ConWebDoc.21183**

Cost and performance

There is little evidence that size, better quality services and lower costs are linked, with massive variations across the range of costs.

There are significant variations in cost between associations. TSA analysis shows that only part of the variation can be explained by factors such as regional wage differences, the amount they have to spend on repairing their stock and the level of deprivation in the areas in which associations work.

HouseMark data indicates a moderate negative correlation (as costs increase performance has a tendency to decrease) between housing management costs and performance. The issue of 'high costs-poor performance' can be interpreted in many different ways, ranging from arguing for 'increased investment in poor performing areas to remedy the problem', through to 'a general lack of focus on efficiency' as just a couple of examples of interpretations.

It is important that individual associations and the sector understand why higher costs do not deliver high performance. Understanding costs is essential to improvement, coupled with an understanding that driving down costs through efficiencies does not necessarily mean cutting services.

1 *The global accounts of housing providers* (2010) TSA
2 Technical paper; *Understanding unit costs of housing associations – regression analysis* (2011) TSA

Case study Bromford Group: Achieving operational efficiencies

Bromford Housing Group achieved a significant improvement in operating margin through it's efficiency drive and operational changes. In the early days of the 'credit crunch', Bromford recognised that the recession was likely to be different to those experienced previously in UK history and that they needed to take a proactive stance to the economic uncertainty, and internal opportunities for scale-related efficiencies. To ensure it continued to thrive Bromford needed to challenge how it operated whilst retaining excellence and innovation in customer service delivery.

The four keys strands of the review included:

- 'All Together Now' project which standardised housing management systems and improved IT systems
- The implementation of a single operating structure
- A Value for Money Plan to target savings through group procurement
- An efficiency challenge to colleagues and embedding commercial behaviour

Outcomes include:

- An 5 point increase in operating margin; from 29% in 2009 and 34% in 2011, equating to a growth of £6m.
- Less duplication and complexity plus improved workflow efficiency and standardisation of best practice
- A reduction in headcount, streamlined governance and reduced costs across the business
- A designated reserve of £3m to fund the Group's additional social investment activities. including working with customers to improve financial inclusion, and reduce 'worklessness'.

Economies of scale

Both the TSA and HouseMark data analysis did not provide any statistical evidence of economies of scale to be achieved through size. Rather there is weak evidence found in HouseMark analysis to indicate that larger developing associations perform worse in housing management than their smaller counterparts.

This could be because the absence of focus on development allows smaller associations to concentrate more intensively on service delivery. Alternatively, it might suggest that service delivery is better undertaken in smaller organisational units and at a local level.

Whilst this all suggests that there is little evidence that larger associations are benefiting from economies of scale or better performance, the two large developing associations we worked with on this project (Affinity Sutton and Bromford Housing Group) did identify some clear advantages from their size:

- they are in a better position to raise funds at competitive costs
- they have greater capacity to tackle both larger projects and a range of activities
- they are able to pay the necessary salaries to employ high quality staff, particularly development and finance roles where competition with the private sector is high
- they are able to absorb shocks in a way that smaller associations might not
- they have the scope to make significant improvements and impacts for the areas in which they work
- advantages for procurement, systems investment, colleague development investment and ability to trial initiatives in one part of the business before roll-out.

It is important to note however that whilst both Affinity Sutton and Bromford are clear that growth brought with it significant opportunities for scale-related efficiencies they recognise that these efficiencies were not generated by increased size alone. Organisational transformation was necessary in order to benefit from, and maximise, efficiencies as the opportunities arose.

One size doesn't fit all: Achieving economies of scale

Our research has shown that scale alone does not provide automatic efficiency benefits. There is no 'one perfect size that fits all' in achieving efficiencies through economies of scale.

Analysis of both HouseMark and TSA data found no evidence that larger associations benefit from economies of scale or better performance. However case studies show that scale might be important if an organisation can make the necessary changes in its culture and approach to achieve any benefits from growth. This is particularly the case for mergers where it is not the size of merger that enables cost savings, but how the organisation operates and changes as a consequence. Indeed, there may be significant opportunities for scale-related efficiencies, but organisations have to transform the way they are structured to benefit from them.

Managing the scale and pace of change

The larger landlords involved in the research felt that achieving efficiencies may be strongly linked to the scale of change that is made, with those associations taking braver, more wide-reaching changes reaping larger rewards. This experience however was not echoed by the smaller association where smaller incremental change has worked well. The key elements therefore to achieving efficiencies may be more closely linked not to the size of the organisation but to the scale and urgency of change needed.

Associations should be clear about their destination, understand the size of the task required, the speed of change needed and have clarity about what they wish to achieve as the end result. Again there is no perfect 'one size fits all' approach to managing change to deliver efficiency. The size and speed of change should reflect individual circumstances, and the degree of change needed to experience a change in culture or outcomes.

Case study Affinity Sutton: Transformational change

Affinity Sutton is one of the largest associations in the country with 56,000 properties in more than 120 local authorities. During 2009 the Group embarked on a major change programme internally known as 'Transition', aimed at transforming the organisation.

The Affinity Sutton group was brought about by a merger between two large organisations of similar size. A decision was taken to rationalise structures with a view to developing a more efficient approach and deliver consistency in services.

The overall objectives were to:

- create one organisation
- develop and plan the vision for the future
- establish consistent systems across the group
- review how the board structure worked

Communication and consultation with staff, residents and stakeholders was a key aspect of the approach taken and was undertaken in three distinct phases – pre approval, transition and implementation. Success of the communication and consultation was measured in part through a brand tracker survey which found that Affinity Sutton had 24% front of mind awareness among residents in the spring of 2010, which subsequently rose to 38% a year later.

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Outcomes of the Transition Programme include:

- Efficiency savings of circa £15m: achieved through the creation of a single structure with local delivery mechanisms, combined centralised functions, resulting in the reduction of 70 posts including 4 directors, and optimised procurement procedures
- Improved customer focus and access, with more tailored service delivery
- Simplified accountability and governance structures, with reduced resources to service board
- Introduction of three regional scrutiny panels to enable the group to respond to local, as well as national agendas

Efficiency for what?

It is key that future focus within the sector is not principally about cost savings and financial improvement. Efficiency aims should be about how to meet the overall objectives of the organisation (including its wider social investment values and aims) and how cost savings can be used to meet those objectives in the most effective way.

The conventional response to increasing financial pressures is often battening down the hatches to reduce spending or achieve greater efficiency, by squeezing costs through wage freezes, reducing pension entitlements and so on. These measures may well have their place, but they need to be part of a wider focus on trying to improve the way outcomes are delivered.

All three associations involved in the research stressed the prime importance of having an effective strategic process for setting organisational priorities, which is owned and led by the board. This will include being clear about the role that cost savings and efficiencies will play in the delivery of objectives, and on organisational arrangements for delivery.

Emphasising 'Value' in Value for Money

Government is currently placing a strong emphasis on VFM for the sector, and at the time of publication of this report the TSA is currently consulting on its VFM standard.

Our research demonstrates the importance of linking cost and service delivery outcomes to get a balanced view of VFM. However, the sector should be careful to avoid the danger of focusing more on costs than on their link with outcomes: avoiding the risk of concentrating only on the 'M' in VFM and not the 'V'.

A strong focus on VFM is not something that should be driven purely by a regulatory standard, but should be integrated into an association's culture as a matter of course. With the future regulator taking a scaled-back approach to consumer regulation, associations will have to be proactive in demonstrating to stakeholders, investors and tenants that they are efficient in their activities, and demonstrate a balanced approach to consumer and economic self-regulation. Many tenants are already disproportionately affected by the current economic situation and social landlords have an increasing obligation and social responsibility to demonstrate to their tenants that they are operating as efficiently and effectively as possible, offering an open and transparent approach to tenant scrutiny and self-regulation.

Value in values

Associations have therefore to make clear decisions about how they get the best VFM whilst pursuing their organisational values and priorities. It is important that the focus is not principally about cost savings and financial improvement. For associations to be effective, it is more important that they are clear about their values and the outcomes they want to achieve which should be based on the priorities and aspirations expressed by their service users, with effective leadership and management in place to achieve them.

In 2007 the CIH and Housing Corporation published a definition of the term VFM which defined the three key components of VFM as: economy, efficiency, and effectiveness.[3]

3 *Embedding value for money in housing association services* (2007) CIH

Case Study Soha Housing: Delivering value for money

Established as an LSVT in 1997 Soha Housing now manages over 5,500 homes in Oxfordshire. In 2009 Soha Housing was the first housing association to achieve a 3 star equivalent rating for Value for Money and Resident Involvement in a Short Notice Inspection.

VFM is high priority at Soha Housing; it believes that to provide the best service for residents it is crucial to focus on obtaining the best value from its resources. Soha Housing is clear that it wants to achieve a high quality service for average sector costs. To achieve this Soha does not focus on the cheapest procurement, but rather procurement that best provides value for money in achieving an 'excellent' service to residents.

Vital aspects of Soha's approach include:

- working to a two-year budget cycle which allows for better planning and longer-term reductions in costs
- focusing on the surplus measure EBITDA (Earnings Before Interest, Taxes, Depreciation, Amortization) to provide a consistent measure of costs in relation to income and set improvement targets over a five year period
- using HouseMark's benchmarking to assess its VFM strategy
- having procurement policies and procedures in place for each of the main procurement areas.

Soha Housing puts a high priority on clear measurable objectives, so its value for money strategy 2011-2014 includes clear targets on performance against cost efficiency measures.

A focus on customers

All three landlords participating in this research place a high value on delivering excellent customer service. Recognising the important role staff play in delivering organisational priorities, all three associations ensure that communication with staff is high on the priority list of change management, and that specific measures link staff expectations to specific outcomes.

Case study Bromford Housing Group: Your voice

Bromford's approach is heavily influenced by their ongoing 'one stop shop' customer feedback programme Your Voice, is designed to obtain the views of 4,000 residents each year and map their overall customer experience using three key channels of communication:

- **Relationship checks:** Structured contact with customers at regular intervals to thank them for being customers and to gather feedback about how they feel about the quality of their home, neighbourhood, value for their money and overall service.
- **Care Calls:** Telephone surveys are undertaken at various 'touch' points in the customer journey.
- **Free Flow:** Picks up all other feedback from customers received through telephone, text, letter, social media, events & web.

Case study Affinity Sutton: Linking staff pay to satisfaction

Affinity Sutton undertakes a quarterly survey of tenant satisfaction. Staff bonuses are linked directly to the customer satisfaction results: up to 5% of salary is available as a bonus, with 3% of this being aligned directly to levels of customer satisfaction. The remaining 2% is split between financial targets and team-specific aims. Affinity believe that this has a significant effect on maintaining a real focus on the basics of good customer service. It has high visibility and impact within the organisation.

Comparison and market diversity

In the full report we look at scale and consider the mixed market of associations in terms of size and expertise across most areas.

Market diversity does have potential advantages. Not only is there a wide range of housing associations, we have seen considerable improvements in the ability of individual providers and the sector as a whole to analyse and compare their finances and performance. In particular, the development of increasingly effective benchmarking, recent analysis in *Social Housing*, and the more segmented financial analysis in the global accounts, all mean there is more and better information available, allowing more effective analysis. This provides considerable scope for individual associations and the sector to be proactive in developing realistic comparisons in relation to VFM, with a view to driving up performance.

It should be noted however that the analysis of TSA and HouseMark data demonstrates disparities in performance between associations, which cannot be fully accounted for, coupled with significant regional differences in performance. Some of these disparities can be explained by, for example, the impact that working with deprived communities can have on cost and performance. However this should not act as a disincentive to associations working in the most difficult neighbourhoods. If they were to look for 'easy hits' to improve their data presentation this might detract from achieving their 'value' objectives.

The sector therefore needs to think hard about ways to use existing information to effectively build in challenges to both improve performance and to demonstrate that improvement once achieved.

Deprivation and region

In the TSA's regression analysis of overall housing costs it shows that measured explanatory factors explain a large part of cost variation, with four factors explaining over 50% of the variations: deprivation, regional wages, decent homes and supported housing.

While a number of different explanatory factors emerge from the TSA and HouseMark work, deprivation appears as a significant factor in all three models. Region of operation also featured in both the HouseMark and TSA regression analysis, meaning that achieving high performance on costs and services is more challenging for associations operating in higher cost regions and deprived areas.

HouseMark's analysis supports deprivation being a significant factor for both housing management and repairs. It found that the greater the level of deprivation, the less likely an association was to be 'best' on its combined cost/performance measure.

Given the likely increase in economic pressures we are likely to see increased deprivation among the tenants of housing associations. This is likely to present ongoing challenges to associations in terms of both costs and performance.

Sector-led improvement

Innovative ways of self-examination are already starting to emerge, for example the developing role of scrutiny by tenants and customers, and resident-led self-regulation. However, for many associations scrutiny has traditionally focused on service delivery, rather than challenge to an association's values, priorities or budgets. Further opportunities may exist around associations developing a more local focus and moving to a model of more localised, participatory budgeting, though this would require associations to build capacity amongst residents to take on this role, and to allow enough time in their budget planning and preparation cycles for this to be done in a meaningful way.

The social housing sector, with its shared aims and passions, has a track record of sharing learning, but it could do better. Associations should be willing to share their learning and listen to others who have delivered positive outcomes. Now might be a good time to think through how this might be done better, and what might be the future drivers of sector-led improvement?

Case study: Soha Housing's scrutiny arrangements

Soha Housing has produced an innovative model of tenant influence and power aimed at supporting tenants to hold them to account at a strategic level.

The co-regulation structure operates at three levels:

1. The Tenants' Forum is the central vehicle for holding Soha to account. The forum has a formal role, set in Soha's standing orders, to monitor Soha's performance and to help with decision-making. Their views are considered by the board in deciding policy, corporate plans and other decision-making.
2. The Tenant Inspectors check Soha's service delivery against agreed standards and report the results to the forum.
3. The Tenant Scrutiny Group challenges Soha on decisions made, plans and performance. They report to the forum and also directly to the board.

Residents are fully involved in making difficult choices around budget priorities. The impact has been to prioritise expenditure in the areas of most importance to tenants and to hold Soha Housing to account on its budget decisions.

Unlocking capacity: Maintaining associations' values and services

Housing associations are a successful example of what can be achieved by value-based, not-for-profit businesses. However that very success, and the fact that they have been supported by government in achieving it, can lead to significant expectations being placed on them, not least as to how they might use their financial capacity both now and in the future.

This is most clearly visible in the government's Affordable Rent programme. While some associations may be making surpluses and have financial capacity at present, there are limits to that capacity. A recent report has shown that Affordable Rent in itself *'will absorb large amounts of the housing association sector's financial capacity'*.[4] This will inevitably reduce the sector's ability to respond to future policy initiatives, for example, to participate in the new policy initiatives arising out of the Localism Act, such as the Community Right to Buy and initiatives to tackle worklessness.

4 *Where next? Housing after 2015*. (2011) L&Q/PWC

3 Scale, diversity and local delivery

Localism

The CIH report *Is big really best – or can small and friendly deliver?* argued that associations have to think about economies of scale in different ways for different functions. It suggested that housing management might be better undertaken in an optimal range of 1,000-5,000 units whilst stock investment might have a much larger optimal range of over 5,000 units.

When revisiting these arguments, Soha Housing made the case that having a clear local focus and concentration of stock has real benefits. Part of the value of operating in a tight geographical location is being able to establish and maintain strong local relationships, whilst retaining a comprehensive awareness of local housing and labour markets/contractors. The benefits feed through into more effective and efficient cost management.

The HouseMark data analysis provided some support for this view. It showed that LSVTs, with strong local concentrations of stock, spend less on housing management than traditional associations. LSVTs also have significantly better scores for housing management performance and for repairs. The TSA analysis also found that beyond their early years, there was no cost differential between LSVTs and other associations.

Local focus

Again this supports the argument that scale is not as important as other factors, in particular a strong localised focus may have benefits whatever the size of organisation.

For the larger associations, dispersed over many local authority areas, there may be benefits in the delivery of localised services through teams that serve local areas. They can offer simpler processes, with local decision-making powers in order to be responsive to local issues and priorities.

However, just being small or delivering localised services, on its own, may not be sufficient to deliver 'best'. Associations need to be underpinned by strong values and effective leadership.

Local delivery: Understanding local markets

Increasingly, landlords are employing asset management policies to release resources to help develop new housing without grant funding and to pursue other business opportunities. To be effective in such an approach, landlords need the knowledge and skills to evaluate:

- the long-term performance of their property portfolio
- the performance of each individual property
- local market conditions.

Some associations which will be developing less, or not at all, will face significant issues about how to deal with capitalised overheads and potentially increasing surpluses. The sector may also demand greater clarity and transparency around how non-developing associations use their surpluses. It is also the case that some associations are choosing not to continue to develop with HCA finance or to develop in different ways, possibly moving into new markets created by some of the provisions of the Localism Act.

Flexibility

For associations considering moving into new markets, slimming down their organisation and creating increased flexibility may be more important than aiming to grow so as to get economies of scale.

Evidence-based strategy

All three associations stressed the importance of developing strategies based on a clear understanding of the operating environment. In particular they stressed:

- a realistic analysis of market conditions
- a business impact assessment
- clarity about how customers' views can influence the strategy
- the involvement of a range of stakeholders.

They also pointed out that their strategies have to be based on robust analysis. This may seem obvious but for many associations the requirements of regulatory standards and inspection have been paramount in their thinking up until now. Given the regulatory changes which are taking place at present, if associations do not develop their own effective analysis and strategies to respond to the changes, they will struggle.

Mergers and rationalisation

With the increased pressures on costs that we refer to above, it might be expected that there would be a significant increase in merger activity over the next few years. However, over the last three or four years mergers have been less a feature of the housing association sector than during the early and mid-2000s, and current counter-pressures may force associations to think hard before considering a merger. Problems of re-pricing debt where loans become available for review (as they do in the event of merger) is now seen as the principal challenge.

The report *The Bigger Picture*[5] found that only 50% of mergers had actually measured the efficiency savings they had achieved in relation to their projections or expectations. It also demonstrated how mergers can absorb energy which might be better devoted to other activities, unless there is clear evidence that the merger is going to result in significant economies of scale or better services to tenants.

The need to develop a clearer understanding of costs and to decide the best use of their portfolio (down to the level of individual properties) requires landlords to make explicit decisions about whether they want to keep operating in a particular area, and whether their current spread of stock makes economic and management sense.

One important option available to social landlords is to transfer stock which does not fit in with their overall aims, or where transfer would contribute directly to their wider aims such as:

- improved service delivery or community engagement
- improved partnership working
- improved cost efficiencies
- improved local decision making and delivery.

So in recent months we have seen a significant upsurge in rationalisation activity.

The TSA work found some evidence that general needs stock held in dispersed pockets of 100 or fewer per local authority area is associated with higher lettings costs. However, within HouseMark's cost/performance model this factor was not so significant, compared to other factors such as deprivation, region, and organisational type.

5 *The Bigger Picture* (2006) CIH

4 Future options: Diversification and developing new markets

Diversification: More specialism or contracting out?

We have seen above that local presence and concentration of activities might be at least as important to effective housing management delivery as scale. Might there be some logic therefore to individual associations specialising in different functions?

Traditionally housing associations see themselves as encompassing development, ownership, capital works and customer services in one body. However, in other regulated sectors, such as the utilities these are seen as separate functions, with differing skill sets which are not combined within one organisation.

The CBI produced a report in 2010 – *Improving homes, improving lives*[6] – arguing that competition could be used more effectively to improve services and efficiency. The Cave Review[7] also argued that separating the roles of developer, owner and manager could '*open up a range of ways in which housing associations with available financial capacity can become the owners of new homes developed by others*', going on to argue that:

> *'The review considers that there are substantial benefits to be achieved by making it easier for these different roles to be separated. The best developer may not be the best manager and vice versa.'*

There are already established markets in repairs, cleaning services and estate repairs, although there is a current trend among associations to bring back in-house repairs and maintenance services following the recent financial demise of a number of large scale private contractors. There are also examples of outsourcing other functions such as financial services and automated rent payments. However, there have still been few attempts by associations at outsourcing customer services either as a whole (or in part).

Examples of associations entering into management agreements with other associations are limited. This is partly due to the ownership of assets being the key to raising funds for development. Some capacity can therefore become 'trapped' if the smaller organisation focuses on housing management alone. The TSA data did not find any clear evidence of whole organisation cost savings where contracting out of general needs management has occurred. However, the HouseMark analysis found associations with an outsourced repairs function are more likely to be 'best' for repairs than those with an in-house DLO.

Though cost implications regarding VAT may be a key factor preventing more associations from considering management agreements, outcomes of the review by HM Revenue and Customs (suggesting not-for-profit organisations should be excluded from paying VAT when they team up to share services) may open up new opportunities for joint working in the future.

Soha Housing is part of a development consortium of smaller and medium associations for whom Bromford is the lead developer. This is currently a common form of relationship, however, in the future we may start to see more creative housing management partnerships emerging, such as:

- joint service centres
- associations sharing void properties in order to transfer tenants at the end of a fixed-term tenancy or where the new Housing Benefit under-occupation criteria affect tenants.

New types of partnerships with developers which hold land, or private investors who see a potential long-term return on capital from rented housing, may also start to develop with associations taking on roles as developers and managers but not owners.

6 *Improving homes, improving the lives – using competition for better social housing* (2010) CBI
7 *The Cave review of social housing regulation* (2007) CLG

Unlocking capacity

In the future unlocked capacity within the sector may continue to be retained by a number of associations which either chose not to (or are unable to) develop, whilst many developing associations are reaching the limits of their own capacity. The increased pressure to unlock capacity within the sector may lead to increased focus on how non-developing associations are using their surpluses – doing nothing may no longer be an option. New arrangements may start to emerge where associations trade their surplus capacity in exchange for managing developing associations' properties or functions.

More freedom, more responsibility?

Several recent reports[8] have argued for associations to be given a wider freedom to manage their assets and set rents. One of these, *Appreciating assets*, argued that:

> *'The key issue is not to have centrally driven targets but to enable and facilitate housing associations to manage their assets in the most effective way to meet their aims. Giving associations the freedom and clear responsibility for doing this could drive efficiency, produce more homes and allow better analysis of local markets.'*

Our case studies have shown the positive way in which associations can manage their businesses. These could be advanced further if they had more control over their business decisions.

Associations have to recognise however that there are responsibilities attached to more freedom.

Comparison and shared learning only take organisations so far. If associations are not effective in providing good quality services that provide value for money then they are harming the reputation of the sector as a whole. Perhaps it is time for maturing associations to challenge themselves, say 'where next?' and own more of the agenda themselves, in the interests of the sector and of the communities which they have pledged to serve.

Key questions which associations therefore need to ask themselves are:

- Just how much more efficient could we be?
- How can we deliver services that provide genuine value for money?
- How can we build in genuine challenge to drive this forward?
- How can we unlock the capacity held within non-developing associations?

This might mean agreeing that associations that are not achieving VFM should subject themselves to corrective action. We saw earlier how important it is that associations properly benchmark their costs and performance, and interrogate why these are different from others'. Associations which have continually poor VFM comparisons with similar associations might be partnered with more successful ones.

This could be taken further, with those associations whose performance has not improved from partnering arrangements volunteering to outsource the management of their stock or giving their tenants the option of switching provider.

It is clear that the sector faces critical challenges and this short paper has aimed to raise, and begin to face, some of the key ones.

8 *Appreciating assets* (2011) Savills/CIH. *Where next – housing after 2015* (2011)L&Q/PWC. *At the crossroads* (2011) Respublica

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