Tomorrow’s world today: Transforming the housing sector

Edited by Christoph Sinn

Chartered Institute of Housing in partnership with Orbit Group

www.cih.org
Tomorrow’s world today: transforming the housing sector

Edited by
Christoph Sinn

Chartered Institute of Housing in partnership with Orbit Group
The Chartered Institute of Housing

The Chartered Institute of Housing (CIH) is the professional body for people involved in housing and communities. We are a registered charity and not-for-profit organisation. We have a diverse and growing membership of over 22,000 people – both in the public and private sectors – living and working in over 20 countries on five continents across the world. We exist to maximise the contribution that housing professionals make to the wellbeing of communities. Our vision is to be the first point of contact for – and the credible voice of – anyone involved or interested in housing.

Chartered Institute of Housing
Octavia House, Westwood Way, Coventry CV4 8JP
Tel: 024 7685 1700
Email: customer.services@cih.org  Web site: www.cih.org

Orbit Group

Orbit Group is one of the largest housing organisations in the country, providing more than 35,000 homes in the Midlands, the South East and the East of England. Our operating associations, Orbit Heart of England and Orbit East and South, help to build strong communities and meet local housing need in more than 100 local authority areas. Orbit Homes, our development and sales organisation, was named the CIH Housing Heroes ‘Development Team of the Year’ for 2011. Orbit Services offers a full range of back office functions and specialist support to the Orbit Group and external clients. Orbit is a strong social business committed to delivering its ambition of ‘Building Brighter Futures for People and Communities’

Orbit Group
Garden Court, Harry Weston Road, Binley Business Park, Coventry CV3 2SU
Tel: 024 7643 8000
www.orbit.org.uk

Tomorrow’s world today: transforming the housing sector
Edited by Christoph Sinn
Published by the Chartered Institute of Housing in partnership with Orbit Group
© 2011 The editor and the individual authors of the chapters
Printed by Clarkeprint. Cover image: Steve Greer/istockphoto.com

Whilst all reasonable care and attention has been taken in compiling this publication, the editor, the authors and the publishers regret that they cannot assume responsibility for any error or omission that it contains.

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise without the prior permission of the Chartered Institute of Housing.
Contents

List of contributors 4

Foreword 7

SECTION 1: INTRODUCTION AND CONTEXT 9
  International Housing Partnership 14
  Tony Cotter

SECTION 2: BUSINESS TRANSFORMATION – PEOPLE 15
  Transforming our organisations – the end is nigh 19
  Mark Glinwood
  Emerging models of leadership in social housing 22
  Robert Rosenfeld
  Case study – Bromford Group Leadership Academy 25

SECTION 3: BUSINESS TRANSFORMATION – STRUCTURE 29
  What can we learn from the Close Neighbours project? 34
  David Mullins
  Public housing organisations in Germany: public or private interest? 38
  Stefan Kofner
  The success story: final chapter or new volume? 42
  Jeff Zitron
  New reality, new governance 46
  Grainia Long
  Case study – Orbit: transforming today, ready tomorrow 50

SECTION 4: BUSINESS TRANSFORMATION – FINANCE 53
  A permanent change of outlook 58
  Steve Partridge
  Housing association financing in the new world: the opportunities, risks and challenges 62
  Jessica Castle and Amelia Henning
  New dawn = new necessity 66
  David Cowans

SECTION 5: CONCLUSIONS AND NEXT STEPS 69
List of contributors

Jessica Castle is Vice President, Corporate Debt Capital Markets at RBC Capital Markets. Jessica joined RBC in 2002 and has structured and arranged bank and bond finance for borrowers across a number of different sectors. Transactions completed range from offshore property investment trust securitisations, infrastructure acquisition facilities, corporate acquisition high yield bond issuances, project finance transactions and corporate bond issues. In recent years Jessica has focussed on the social infrastructure and social housing sectors. Jessica’s current responsibilities include covering the social housing sector from both a bank lending and capital markets perspective.

Tony Cotter is Chief Executive of Gallions Housing Associations. Created in 2000, the organisation manages over 5,600 homes within London and the South East. He joined Thamesmead Town in 1996 as Housing Services Director, leading much of the work on the de-merger of Thamesmead Town and the creation of a new landlord, Gallions Housing Association. He is a Fellow of the Chartered Institute of Housing, chairman of the Research and Exchange Group (REX) – a transnational group of housing associations, formed to discuss policy and other issues – and chair of the International Housing Partnership. Tony was a founder member of Quality Housing Services, now a well-established and successful quality accreditation system in the social housing sector.

David Cowans is Group Chief Executive of Places for People, an organisation committed to working to provide aspirational homes and inspirational places. David has led the transformation of Places for People from a traditional housing association into a diverse business, providing a range of products and services to build and manage communities that can prosper and be sustainable in the long term. David is a Fellow of the Chartered Institute of Housing, a Fellow of the Royal Society of Arts, a Chartered Director of the Institute of Directors and has an MBA from Birmingham University. He is also an Academician of The Academy of Urbanism. David is a regular speaker and writer on housing and regeneration issues.

Mark Glinwood holds a Masters Degree in HR Management and is a Fellow of the CIPD. As Chief Executive of Insight HR & Management Consultancy, Mark manages a multi-skilled consultancy team, and has led a number of significant change-management projects. These projects have centred on mergers/acquisitions as well as major cultural realignment. He has been influential in developing forward thinking HR strategies with a wide range of organisations, adding value to business processes through the refocusing
of people management to support continuous improvement of service delivery. Mark has substantial experience of remuneration and reward, and works primarily at board and top team level on organisational performance issues linked to business change.

**Amelia Henning** is Vice President, Social Infrastructure at RBC Capital Markets. Amelia joined RBC in 2005 having previously worked for the Corporate Private Finance team at HM Treasury as a fast streamer, with a specific focus on Infrastructure and PFI, and for the Infrastructure team at PwC. Amelia has a specific focus on regeneration and social housing including the development of innovative funding solutions. She has significant experience advising on complex PFI/PPP transactions and has been involved in the debt raising process across a number of sectors including health care, regeneration and social housing. Currently Amelia is involved in the Igloo consortium bid for the Merseyside Urban Regeneration Fund under the JESSICA initiative and advising Ofgem on the sale of £1.1bn of offshore transmission assets.

**Stefan Kofner** is Professor for Housing Policy, Management and Finance at the Hochschule Zittau/Görlitz in Germany. He has written two textbooks on housing policy and management and on real estate investment. Stefan is also a columnist for the German housing journal *Wohnungswirtschaft & Mietrecht*. He was invited as an expert to public consultations of the German parliament and the city council of Dresden. Professor Kofner is also a board member of a public housing organisation. As a member of the CIH and of the coordination committee of the European Network of Housing Research (ENHR), he is promoting international collaboration in housing research and practice.

**Grainia Long** is Director of the Chartered Institute of Housing in Northern Ireland, with responsibility for corporate strategy and for the Business Unit in Northern Ireland. From 2008-2010, she was Principal Adviser to the Commission on the Future for Housing in Northern Ireland. She previously held the post of Director of Policy at the Equality Commission for Northern Ireland and before that worked in Scotland for the housing and homelessness charity, Shelter. She is a member of the Institute of Directors, and a Fellow of the Royal Society for the Encouragement of Arts, Manufactures and Commerce.

**David Mullins** is Professor of Housing Policy and a member of the Third Sector Research Centre in the School of Social Policy at the University of Birmingham. He is interested in the governance, management and regulation of housing organisations in the third sector and in ways in which large housing organisations can become more
responsive to the local neighbourhoods and communities with whom they work. He is co-author of *Housing Policy in the UK* (with Alan Murie) and *After Council Housing: Britain’s new social landlords* (with Hal Pawson) and numerous reports and articles on housing issues. He is a housing association board member and charity trustee.

**Steve Partridge**, CPFA, is the Director of Financial Development Services at ConsultCIH leading their work on financial consultancy and training, a role which also comprises senior financial policy advice for the Chartered Institute of Housing. Steve is a leading expert in housing finance and is a regular speaker at national and regional conferences on housing finance issues, including well over 250 seminars and conferences on topical financial issues since 1999. Steve has led business planning and option appraisals at hundreds of local authorities, led the establishment of ALMOs and stock transfer housing associations and input to the value-for-money agenda at the national level.

**Robert Rosenfeld** – BA (McGill); MBA (Concordia); PhD (Warwick) – has been Academic Director of the CIH / WBS Leadership Programme for Housing since 2001. He is an Associate Fellow in Executive Education at Warwick Business School. Robert’s professional interests focus on the processes and practices of enabling people and organisations to successfully manage change in large and small organisations. His research and writing activities have focused on understanding the processes of leading change and their relationship to overall competitive performance. Among other publications, Robert is co-author of *Organizational Behaviour* (1989, Oxford: Wolsey Hall), and *Managing Organizations*, (1990 1st ed., 1999 2nd ed., New York: McGraw-Hill).

**Jeff Zitron** is chair of Altair Consultancy and Advisory Services (www.altairltd.co.uk) which works with housing associations, councils and arms length management organisations (ALMOs). He is also chairman of a housing association, an ALMO board member, and director of several other companies working in housing and the public services. He is author or co-author of fifteen publications on housing and public policy.
Foreword

Transforming our business
The consistent call for change within our sector is not new. But today the debate is no longer whether or when we change, but how.

The imperative to shape our own destiny and evolve to meet the challenges of tomorrow transcends current government policy or the operating environment of the day. It requires us to change because we believe it is the right thing for our customers and our businesses.

In light of this imperative we must understand the process of change, our vision and how we will transform to be successful for our residents and in our communities.

Against that backdrop, the Chartered Institute of Housing (CIH) and Orbit Group, supported by Just Housing, brought together more than 30 experts from the world of housing and beyond. Their role was to focus on our future, looking at three key themes. We also sought opinion from a range of thinkers, academics and luminaries to help understand the road ahead and the journey we might take.

The response was enthusiastic, enlightening and above all, exciting. Together we considered what type of organisations we might need to become; what capacity and capability we need from our people; and how would we finance our ambition to provide homes and services in the future.

I hope you will agree that the outcome makes fascinating reading. But this is only the start of the journey. Those who took part were driven by a desire to see change happen. And so, this project has expanded to a second stage setting up a network for change across the country.

For now, though, I hope you find the contents as engaging and interesting as did those who took part. Finally, we would like to thank those participants for so generously giving their ideas, expertise, enthusiasm and time, and the International Housing Exchange Partnership (see page 14) whose work on business transformation was in no small part the inspiration for this project.

The future is in our hands.

Sarah Webb
CIH Chief Executive

Paul Tennant
Orbit Group Chief Executive
Section 1

Introduction and context
The recent economic and fiscal climate has been one of the most challenging ever for the social housing sector. At the same time, the coalition government is pursuing a vigorous public sector reform programme. Underpinning this programme is a desire to redefine the relationship between citizens, society and the state on the one hand, and to plug the public sector deficit on the other, with a key focus on reducing welfare costs and public spending. This has led to significant budget cuts in most areas, with spending on welfare particularly hard hit (savings to the welfare budget are expected to be £11bn by 2014/15). The cuts to housing and specifically to the new build programme (reduced to £4.5 billion over the 2011-2015 spending period from £8 billion previously) are of great concern, as they will undoubtedly have a major impact on the industry’s ability to deliver affordable homes on a sufficient scale as well as to invest in the existing stock. Furthermore, these drastic cuts to welfare and to housing investment could see some of the most vulnerable people shouldering a disproportionate burden of the deficit reduction measures.

Housing organisations have demonstrated strong resilience amidst a tough operating environment. Many adapted their business models in order to keep development programmes going. Others see the ongoing pressures as an opportunity to more fundamentally rethink and reshape the way business is done, as a way of future-proofing their organisations. We believe that now is a good time to look ahead and consider the organisational changes necessary for housing providers to thrive and succeed in an environment marked by change and uncertainty.

This compendium is the outcome of a joint project between the Chartered Institute of Housing (CIH) and Orbit Group. It considers how housing organisations will need to transform their businesses if they are to thrive and succeed in the future. The project explored the transformational processes that are needed to enable housing organisations to navigate and respond to the current and future operating environments by addressing the following questions:

- what changes in the areas of governance, set up (structure); financial models (finance); and knowledge, skills and capacities (people) are needed to support this?
- what will change look like?
- what support and help will organisations need to successfully transform their business?
- what might the ‘successful’ housing organisation look like in 2020?
In an attempt to answer these questions, we held (with the support of Just Housing) three roundtable discussions during April this year. In addition we have invited a range of people to make a written contribution in the form of a short essay or commentary in response to the key themes of structure, people and finance. **We would like to stress that the views expressed in this compendium do not necessarily reflect those of CIH or Orbit Group**, they are the views and opinions expressed by those participating in the roundtable discussions. As such, they are not intended to be representative of the sector. The resultant compendium provides the flavour or essence, rather than the details, of what has been discussed and any omissions from (or misinterpretations of) what was said are the responsibility of the editor.

On a note of caution, we don’t claim to have the definitive answers to the above questions, nor are we providing a blueprint or off-the-shelf solution on how to transform your organisation. Although it is possible to consider many of the principles that should guide change, each organisation has to formulate its own change process. What this compendium does is to open up a much-needed debate about change in the sector, what it might look like and how it might best be managed. It aims to stimulate ideas, rather than provide practical solutions as such. This will be the next step! As pointed out by a roundtable participant ‘We have to forge our own destiny before others do it for us’.

**Pressures and likely position by 2020**
To quote Donald Rumsfeld, the former United States Secretary of Defence:

‘**There are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns – the ones we don’t know we don’t know.**’

Whilst there may be ‘unknown unknowns’, what we do know is that the parameters which have underpinned the delivery of social housing for quite some time are changing. The cumulative effects of the housing and welfare reform measures amount to nothing short of a fundamental shake up of the sector and will have a massive impact on the way housing organisations operate in the future.

It is also highly unlikely that these policies will be reversed, even with a change of government. In addition, cuts to development grants, introduction of ‘Affordable Rent’ as the main funding mechanism for new homes, and increased financial risk from greater market exposure as a result of a more diverse funding portfolio throw up their
own challenges. These will not only impact on development, but on housing and asset management, in short the whole way the social housing sector operates. As we enter into a ‘quasi-private sector environment’, there is a clear imperative for the sector to change and to do things differently.

In addition to these factors, roundtable participants identified a number of challenges and issues which housing organisations will have to address as they are moving forward:

- The sector is wrestling with its **purpose** as government policies and the role and financing of social housing continue to change. Social landlords are also looking more closely at their accountability back to the communities they serve. There are clear tensions between the social role on the one hand and commercialisation on the other. What will be the role of the sector in the future? Are social providers in effect becoming private companies with a social purpose? (The contribution by Stefan Kofner shows how housing organisations in Germany have successfully embodied this role, albeit in a different context).

- There was consensus that the sector as a whole will become more **business-like and commercially minded** and that this shouldn’t be viewed as a negative development. Whilst acknowledging that there will be some tensions between social purpose and business drive, it will also provide for new opportunities. For instance, it was held that mechanisms such as the ‘Affordable Rent’ model blur the lines between social and market housing and as such could provide an opportunity for the sector to become more part of the mainstream.

- As a result of this new commercial drive, boards and executive teams are being **pulled in vastly different directions**. Individual organisations are finding it quite hard to plot exactly where they need to be in terms of the future of their business; what their values/beliefs should be and what market(s) they should position themselves in.

- The likelihood of new **changes in organisational structures and rationalisation** as organisations seek to take advantage of economies of scale (particularly when it comes to raising finance) will increase.

- We have to continue to recognise that the **sector is not homogeneous**, but encompasses a great variety of organisations, whose organisational structures and make up are a reflection of their values, objectives and business drivers. It is important to allow for these differences. The nature and extent of change will differ from organisation to organisation and we should steer well clear of attempting to hoist a one-size-fits-all prescriptive model of change onto the sector.
For government, sector success is very much ‘judged’ according to the number of homes developed. However, the mounting social pressures that result from the current economic climate, public spending cuts and reform proposals mean that the sector’s ‘traditional’ role of supporting vulnerable people is coming to the fore again. There is a tension here between the need (as well as expectation) to develop more homes and the provision of additional services to support individuals and communities which organisations will have to come to grips with. We also have to remind ourselves that housing organisations already work with some of the most deprived communities in the country. At the same time LAs are reducing resources going into communities. Many housing organisations will simply have no choice other than bridging those gaps as far as they can, particularly where their businesses are for instance fragile due to social cohesion issues. This of course costs money, which HAs are likely to have to find by reprioritising services and staff time, seeking grant funding, making savings elsewhere or dipping into their balances.

Structure of compendium
The compendium is divided into three sections, covering the issues explored at the roundtables concerning people, structure and finance. Each section starts by briefly setting the context, followed by a summary of the main points made at the roundtable discussions relevant to each of the issues. Rounding off the sections are a number of short contributions, reflecting generally on the issue of change and business transformation within the housing sector. We hope that the issues discussed here will provide the impetus to start a debate about how housing organisations will be fit for purpose in the future.

Scope of compendium
Many of the contributors have a background in housing associations in England, and the arguments tend to reflect this experience and their current concerns. Nevertheless the discussions are often relevant across the social sector and we hope that they will be beneficial to organisations across the UK.
International Housing Partnership
Tony Cotter, Chair of IHP and Chief Executive of Gallions Housing Association

The International Housing Partnership (IHP) is a network of housing organisations from the USA, Canada, England and Australia.

Our recent work has focused on developing a common methodology to drive business transformation based around an assessment of risk, return and investment.

Exploring the drivers, environment, pace and direction of business transformation helps us to develop solutions which can be adapted to work in our own policy and operating environments. Global markets also now enable us to explore global solutions, from shared services to joint procurement processes and energy efficiency. Is there any reason why a UK housing organisation couldn’t provide contact centre services to a small provider in Canada, for example?

Clearly there are significant legislative, policy, funding and cultural differences between our countries. For instance, in the US the ‘not-for-profits’ are often much smaller in scale than in England and tend to be mission-driven social enterprises that are reliant on marshalling a series of complex tax credit finance packages on a project-by-project basis. In the UK and Canada the asset-backed organisations receive grant and revenue support from the government although this is changing rapidly.

However, despite these differences, it is remarkable how the pressures and changing policy climates in our respective countries are exerting similar imperatives to change our business model and undertake a process of transformation.

Our research found striking synergy around a number of issues such as restricted debt financing, changing governance and leadership, economic austerity and public expenditure cuts, but also surprising commonality around the policy agenda across all of the countries focusing on neighbourhoods, Big Society and communities, with a leaning towards a form of ‘social enterprise’. There was also a powerful sense of the imperative to change.

Critics of our sector have long claimed it is too insular. Taking this international perspective enables us to identify common areas of activity and converging trends in affordable housing systems, where the sharing of experience, expertise and good practice can help us to drive the transformation we need today to deliver the organisations of tomorrow.
Section 2

Business transformation – people
Social housing organisations fulfil a diverse and wide-ranging role within communities, alongside their core housing management functions. This is reflected in the roles performed by their staff, which are also very diverse, and it makes staff the most important asset of any housing business.

As the sector’s own ambitions and the external environment drive changes in housing organisations, getting the skills, culture and leadership of individuals and organisations right will be vital.

Our roundtable discussions captured the issues which participants expect to arise and the questions they feel need more attention so that the sector can prepare its people for the future.

The non-profit and social purpose of social housing can be an asset in attracting and maintaining a motivated workforce. Are providers effectively capitalising on this as a competitive advantage in recruitment? How successful are housing organisations at attracting the best talent from educational institutions?

The housing sector is continuing to go through a period of significant change, with increased and changing demands around the financing of housing, the management of stock, the introduction of new technologies and a changing customer base. How effective are organisations in identifying the skills needed to respond to these changing business drivers and customer expectations? Are training and education commissioners and providers taking a sufficiently strategic outlook in ensuring that they are able to support individuals and businesses in acquiring the skills they need?

In the social housing sector the absence of customer choice amongst social housing tenants has been one of the key rationales for consumer-facing regulation, both through the Audit Commission and the Housing Corporation/TSA. With the step back from consumer regulatory activities, how are businesses ensuring that they put in place appropriate proxies for consumer challenge? What steps are businesses putting in place to ensure that innovation from good to excellent is delivered in the absence of shareholder or market pressures? Is the housing sector sufficiently customer-orientated? What cultural changes are needed to ensure a customer-first mentality across all staff?

There are considerable pressures to focus on the operational challenges presented by the raft of housing reforms currently underway. Management teams have their hands full keeping on top of day-to-day demands. How effectively is leadership in organisations thinking beyond the immediate pressures of ‘Affordable Rent’, welfare
改革等，考虑他们业务的未来及其需要在下一个十年中实施的变革。

许多住房组织正在多元化发展，开展更多商业活动。这带来了需要员工为不同的商业模式和不同激励措施服务的需求。业务在非营利和商业员工及文化方面如何实现和整合？这为人力资源部门带来了什么挑战？如何充分利用各自业务的长处？在这些情况下，能否推动业务向前发展，形成共同的价值观？

许多住房组织提供个性化护理服务，作为其活动组合的一部分。这些服务需要具备根据个性化预算和消费者对服务提供者的明确选择来作出响应的员工。这种程度的消费者控制和选择在一般需求提供中是几乎不存在的，但个性化服务显然是发展方向。然后组织如何考虑该领域现有的技能和文化驱动因素，并确保这些特征在整个组织中得到共享？

鉴于住房行业发生的重大变化，其领导者是否准备好应对新的和不断出现的挑战？组织在董事会和管理层层面是否在持续发展他们的领导团队？它们在哪里寻求发展和培训？是否有特定需求，而这些需求没有得到满足？

随着新监管制度的出台，组织在制定战略和运营方向方面有了更大的灵活性。需要何种文化变革，才能确保企业充分利用这些改革带来的机遇？是否有某些企业因从长期受监管的制度转变为越来越能够自行塑造其活动的制度而面临‘斯德哥尔摩综合症’的危险？

住房行业的同质化正在迅速减少，行业正在变得更加多样化。随着服务提供日益本地化和操作上的变化，行业内的比较和学习还有存在的必要吗？标杆和跨行业的合作应如何应对以本地市场条件为主要驱动力的服务提供环境？这些服务如何适应日益多样化的商业模式，更广泛地考虑服务卓越的定义？
Summary
On the evidence of the sector’s track record of successfully dealing with challenges in the past, there is reason to believe that housing organisations will once again rise to the occasion when it comes to facing the turbulent times ahead. However, as we go forward, just reacting to the issues and challenges of the day won’t be enough by itself. The truly successful organisations will take a much more pro-active and strategic approach when it comes to looking ahead, with self-determination and self-imposed change being the watchwords here. This section has identified a number of the key ingredients required for effective change of this nature to take place. People are our most important asset and successful business transformation is largely determined by the quality of leadership, the creation of the ‘right’ culture conducive to fostering change, and of individuals’ levels – as well as propensity to embrace – new skills.

The following contributions in this section pick up on as well as develop some of the issues discussed so far. Mark Glinwood provides a provocative commentary on the state of leadership, arguing that in order to transform our businesses and communities we have to build better leadership first.

Dr Robert Rosenfeld continues the leadership theme by focusing on the key leadership qualities needed in the social housing sector. The article finishes by inviting readers to assess their own leadership qualities by taking a short self-diagnostic test.

The people section is then rounded off with a short case study of Bromford Group’s in-house Living Leadership Academy, which is an excellent illustration of leadership development.
Transforming our organisations – the end is nigh

Mark Glinwood, Chief Executive, Insight HR & Management Consultancy

Some may view the current economic crisis as one in which it is not too apocalyptic to suggest that the end is nigh! Well perhaps it is – and perhaps it should be if real transformation of communities and organisations is to result in the coming years.

We have for too long viewed change, transformation and continuous improvement through the paradigm of what we have always known. There will be those reading this article and switching off already – thinking transformation is what we have been about for years, and pointing to examples of ‘good’ and ‘best’ practice that evidence their assertion. Well, for a small minority that analysis may be valid. For the vast majority however, I would argue that at best it is no more than self-illusion, and at worst a coping mechanism to perpetuate self- and organisational-interest as opposed to genuinely viewing transformation through the eyes of the customers.

Indeed, the clue may be in the terminology that many of us proudly use, such as ‘good’ and ‘best’ practice. By definition these terms imply past experience, and are often abused to frustrate transformation. Imagine if creativity, innovation and experimentation were truly the language of choice when leading and shaping our organisations, as opposed to the often tokenistic use that characterises how they are currently applied. The truth is that we need to practice all of these attributes if we are to be one step ahead of societal change – at present most of us, I would argue, are two steps behind. There is only one thing worse than being two steps behind – and that is being two steps behind without any capability to embrace true transformation. For those of us in such a position, then probably the time is quite rightly nigh!

My opening assertion could be taken by some as a provocative challenge to all those leaders who are going the extra mile to meet the challenges of the day. It could be seen as somewhat academic and simplistic in its analysis perhaps, when you fully consider the complexities of the wide range of variables that have to be constantly navigated, despite the fact that we have little control over how they will play out in the future due to political, regulatory, economic, and demographic variances. Well, that’s the real world and it isn’t going to change, particularly in the public and quasi-public sectors! The challenge is therefore one of preparing our organisations for perpetual transformation, which requires leaders of substance and vision – and my view would be that we are a long way from having that depth and breadth of leadership in the public and quasi-public sectors.
Why do I draw such a damming conclusion? Well, we only have to look at the collective calibre of many of our workforce, who are stressed and resistant to change. This is despite the fact that many, or indeed most, are committed, talented and keen to make a real difference to the public they serve. So where is this argument going? The common denominator is leadership, or lack of it – mediocre, insignificant, misplaced and inflexible would not be too unkind a description of many of our organisational leaders – although not all!

Leadership is about setting a vision (by definition transformational), developing confidence, blending talents and preparing for change. The sum of those parts equates to efficiency, best fit and greatness. Let’s take the efficiency test using that well-worn and sometimes disingenuously used corporate mantra – our people are our most valuable resource! Imagine a world where our customers had a legal right to demand an efficiency rating of our staff’s collective worth, to help determine whether they were receiving value for money. Many of you I suspect, using this analogy in the context of your central heating boiler, would be looking to upgrade. Why is this occurring? Well clearly there is a wide variety of reasons, but I believe the clue is in the way in which we recruit, develop, reward and lead our people.

In leadership, there is an insatiable drive for consistency, fairness, conformity and homogenisation – all of which flies in the face of true diversity which is one of the most powerful ingredients in transformational change. This approach breeds caution, risk-averse practices, bureaucracy and disillusionment. Then we have reward systems that often have little, if any, link to creativity, innovation and risk-taking qualities, which we need in abundance if we are to transform our communities!

We offer services to people through people, but nevertheless disproportionately develop our people in terms of knowledge management, sometimes to the exclusion of behavioural development linked to core values. This behavioural development is the very foundation that would enable many more within our workforce to embrace change in a way that transforms, as opposed to creating frustration. Where would Apple be now if the characteristics described above were the ones embedded within their cultural DNA? At this point, for those of you who are thinking ‘what has Apple got to do with my organisation and the issues debated within this piece?’ – then you have almost certainly by accident identified what type of leader you are – the end is nigh!

I could go on – but would risk alienating even those of you who have stayed this far, be that out of curiosity or agreement! The point I am trying to make, through exaggeration
of course, is that if we are to transform our communities and our staff then we have to transform our leaders first. That will mean bringing new blood into our sector, understanding that leading is more about environment creation than doing, valuing experimentation and evolving a rich cadre of role-models drawn from both within and beyond the sector specifically to light the touch-paper of change.

Imagine a world where social housing was viewed as being as ‘sexy’ as those frivolous products produced by Apple! Why? Because that would bring us real influence, resource and power, enabling community transformation and avoidance of the spectre of The End is Nigh!
Emerging models of leadership in social housing

Dr. Robert Rosenfeld, Associate, Warwick Business School
Academic Director of the CIH / WBS Leadership Programme for Housing

Since 2001, the CIH and Warwick Business School have been working together to design and provide the Leadership Programme for Housing. Since its inception, approximately 250 senior leaders have taken part in the programme and contributed to its success and its evolution. This contribution highlights the changes we have seen in the sector and how it relates to the concerns being expressed by leaders dealing with these changes. It also represents the evolving nature of the programme curriculum as we strive to ‘keep ahead’ of the leadership challenges necessary to deliver organisational success.

Leadership is about change

A fundamental paradox of being an effective leader is that being an excellent manager can sometimes hold back good leadership. Management is about creating order, predictable outcomes and delivering on promises. Leadership is about change. Most leaders accept that their organisation needs to be able to respond to changes in the operating environment. However, it is clear that higher-performing social housing providers go beyond this remit and focus on anticipating change – shaping their organisation’s resources, capabilities and relationships to suit what ‘will be’ rather than what ‘is’.

10 tips for higher performing leaders

Before offering some conclusions from our experiences in the social housing sector, we should first state our caveat...it all depends! The sector contains a broad range of challenges and the responses of leadership teams vary. Indeed, we can foresee even more fragmentation and specialisation – where social housing becomes blurred with other local community provision and commercial imperatives. In this environmental mosaic, we can perceive the following themes of effective leadership emerging:

1. **Doing more with less.** The size of one’s balance sheet is no longer a sign of success. Leaders need to find ways of leveraging a more limited asset base (and organisational size) to deliver value.

2. **Dealing with legacy orthodoxies.** Many organisations suffer under the heavy hand of history and can be victims of past successes and failures. Leaders need to recognise the benefits of the ‘legacy effect’ but not let it drive their future direction or actions.

3. **Encouraging fresh thinking and innovation.** A critical role of any leader is to be the ‘Chief Innovation Officer’ for their organisation. This is not about being ‘creative’;
rather it is about nurturing, championing and measuring the organisation’s ability to innovate.

4. **Designing organisations from the outside-in.** We all have experience dealing with organisations that appear to be designed to suit their own internal purposes. Effective leaders work hard to re-design their organisations from the outside-in. The goal is to make the organisation appear to be the ‘perfect’ complement to key stakeholders.

5. **Championing collaborative relationships in a transactional marketplace.** There is no getting away from the recognition that organisations must meet short-term targets. However, leaders need to adopt a perspective of organisational sustainability that encourages long-term value creation. To achieve this, leaders must identify suitable partners that share similar goals and ambitions and work together in a mutually supportive (but still commercially beneficial) way.

6. **Developing the high-performing workforce.** A high-performing workforce is one where every single individual is committed to being the best they can be. However, leaders often struggle with people who are poorly suited or lack the skills to excel in a particular role. Leaders need to be committed to supporting the workforce to excel and, in those cases, where the fit is not right, to make the necessary changes. Anything less is to tolerate under-performance.

7. **Managing risk and uncertainty.** A rapidly changing operating environment has meant that leaders need to be more astute in committing resources to projects and initiatives. Rather than committing themselves and their organisations to relatively high-risk outcomes, leaders need to be able to ‘learn and adapt’ rapidly through prototyping and continuous refinement of objectives.

8. **Building a leadership pipeline.** Despite all of the training and development to the contrary, leadership is not about individual superstars. Leadership is a team game. This team comprises immediate peers, but also improving the bench strength of leadership within the organisation through developing, mentoring, coaching and better career development.

9. **Confronting difficult decisions.** Leaders need to recognise that their role is not a popularity contest. It may not be comfortable but leaders need to develop fair and transparent ways of negotiating outcomes. This is not the same as being obstinate, but at the same time it is about being consistent and focused.

10. **Bias towards action.** Many initiatives founder due to excessive dialogue or lack of consistent support. Successful leadership requires steely resolve and moving rapidly to implementation and refining actions along the way.
Experienced leaders will be able to look at the list above and offer examples of how they have sought to make an impact in many of these areas. We believe these examples need to be disseminated more widely and offer insights into how aspiring leaders need to develop. It is only by developing organisational leaders that feel comfortable dealing with these challenges that we will be able to respond to the exceptional opportunities that lie ahead of us.

**A self-diagnostic test**

If you have managed to get this far into this article, then you possibly share some sympathy with the views expressed! The next stage of reflection is, perhaps, to wonder if you are a high-performing leader. High-performing leadership is about amplifying your actions so that they are clearly seen by all internal and external stakeholders. If nobody notices your actions, then, quite simply, you are not doing all that well! Here is a quick test: ask ten individuals whom you have worked with for at least a few months to describe you as a leader (they could be peers, staff, or stakeholders). You are not looking for feedback here, all you want to know is what actions they have observed which they attribute to your leadership. Fewer than ten individuals is cheating and unlikely to be a valid sample. Have the individuals identify at least three situations in which you were seen to be exerting leadership. They should write these situations down and send them to you. Reviewing the data you collect, try to allocate the illustrations you have received from your sample with the ten characteristics of high-performing leaders. It is unlikely that you will exhibit superhero status and have ticked all the characteristics! However, those characteristics that dominate form the core of your leadership ‘DNA’. Doing more of them will enhance your personal leadership brand. In addition, consider those characteristics that you feel are important, but which do not appear to be recognised. How can you amplify your actions and behaviours so that people take notice? In six months time, try this exercise again!

**Final thoughts**

There is no single ‘photofit’ to becoming a high-performing leader. We do know that within social housing there are some terrific role models of leadership. We can all learn from their experiences, as well as from leaders in many other contexts. As said earlier, the level of uncertainty in the social housing sector is high. This should not be seen as a threat, but rather as an opportunity to develop great organisational leadership teams that use resources more effectively to deliver sustainable organisational success. Leaders that can continually build on success rather than appear shackled to it will be the role models of the future.
Case study – Bromford Group Leadership Academy

First-class leadership development is giving Bromford a real competitive edge through tough economic times for the housing sector.

More than 200 leaders from all areas of the Bromford business have been through the in-house ‘Living Leadership Academy’ to date – and their reaction speaks volumes about its success.

‘The people in my academy team have given me a deeper understanding of other areas of the business and the impact of change on their teams,’ says one manager. ‘I have formed some valuable relationships.’

Another colleague says: ‘I have contact with people in different parts of the business so not only do I get exposed to more info on what’s going on, I can appreciate their difficulties and experiences.’

All of them enthuse about the quality of inspirational speakers such as Jeff Grout and Malcolm Smith. ‘The opportunity to experience such high-quality learning in so many important leadership skills equips us all for our current issues as well as our future challenges,’ says one colleague, when asked to sum up their experience.

Launched in October 2006, the Leadership Academy was based on the Vistage model as used by chief executives across the world. The Bromford version was designed and delivered to give managers and executives what Helena Moore, director in charge of OD, called a ‘best in class’ experience and is now accredited through the Institute of Leadership and Management.

Bromford’s 210 leaders have learned, grown as professionals – and had fun – in four separate phases with a fifth one about to start in July 2011.

‘The academy gives leaders support in delivering our strategic priorities and in leading the group through the change that most businesses now recognise is the norm,’ says Helena as she reflects on the way the programme has proved its worth.

‘The first step we took was to define our own leadership values – such as displaying a positive attitude and taking a personal responsibility for seeing things through –
and articulate these in plain English. Our CEO, Mick Kent, played a key role in this. Taking the values we then defined topic areas to support them and bring them to life. We then converted these topics into high-impact learning and development events.’

Participants commit one day a month to the academy as part of a peer group of around 15 colleagues and focus each month on one specialist leadership area. There is often some preparation work. Typically the mornings are led by a member of the Bromford executive team with a facilitator – an expert in their field – followed in the afternoon by an opportunity to explore the topic through discussion about real-life experiences. At the end of the day, colleagues commit to actions and changes and their progress is checked at the next session.

How does Bromford measure the academy’s success? ‘It is always a challenge when it comes to training and development to measure the return on our investment and the outcomes,’ Helena replies.

‘Adding to this challenge is the fact that, since the start of the programme in 2006, there has been a significant amount of organisational change prompted by the growth of the group and the impact of the global economic situation. This has resulted in team restructures – including redundancies – the merging of cultures, pay review restrictions, significant changes in our business operations, a new pay and reward approach and a new performance management approach – and there will be more changes to follow. There is no scientific way of disaggregating the impact of the programme on business performance from these other factors but we do believe that the business’s response to the changes and influences has helped us to continue to deliver outstanding results at such a challenging time.’

We have carried out three levels of evaluation – gauging how the programme content has been received by participants; how it has delivered its objectives; and measuring its impact on business performance – and the results bear out the gut feel.

What next? The academy sessions now form part of the essential training and requirements for all Bromford leaders and they run regularly.

‘We continue to review the content and quality of the sessions through feedback and continue to modify them to improve and meet changing business needs,’ explains Helena.
Other workshop sessions will be slotted into the programme if they are required and Bromford will be developing a ‘New to Leadership’ programme to help some colleagues get the most out of the academy.

New academy sessions include: a new approach to managing change, commercial efficiency/value for money, and ‘great place to work’ learning sessions organised throughout the year.

Bromford’s top 60 leaders will be attending four events over the coming year to help them achieve a broader understanding of what’s going on in the wider world as well as the housing sector. These sessions also include what Helena describes as ‘future gazing’.

Leaders will continue to meet with Bromford’s CEO, who will lead the sessions featuring a mixture of expert facilitators, case studies and field trips.

What else? ‘We have recently rolled out a transformed approach to performance management. This new approach will give leaders a new set of tools to manage and develop colleague performance,’ says Helena. ‘It will also enable us to measure leadership capability focusing on what our leaders deliver but also how they deliver it – their leadership behaviour.’
Section 3

Business transformation – structure
Organisational structures have been varied and fluid in the housing sector for some time. From the 1990s onwards, the HA sector has seen a considerable expansion of groups and mergers. This has been largely driven by a desire to increase efficiency as well as to expand and grow. Equally, stock rationalisation (i.e. the rationalisation of landlord property management and/or policy and practice) is increasingly looked at as part of organisational restructuring processes, as widely dispersed stock-holding patterns can make it more difficult to realise efficiency savings and engage with tenants in a meaningful way.

Housing organisations responded to wider (social) issues by branching out into non-housing activities, with many best viewed as ‘community investment’ organisations. Whilst reflecting organisations’ philanthropic roots, this can also be attributed to an increasingly consumer-focused culture.

This culture coupled with a desire to improve services, and to increase accountability as well as meet local needs, has led not-for-profit housing organisations to make changes in governance, moving away from ‘simple’ top-down customer involvement models to one where residents’ priorities, views and engagement with relevant processes are at the heart of housing organisations’ frameworks for directing, accounting for, monitoring, assessing and modifying their own behaviour and performance.¹

Trends and options for organisational structures have been much considered over recent years. Given the challenges ahead it is timely to reinvigorate the structures debate and rethink them again. We take structure to encompass an organisations’ legal composition and governance arrangements as well as the business model adopted.

The scope and breadth of housing providers’ work will vary dramatically. Some will work across the ‘tenure divide’, offering wide range of products and services and are much more commercially minded; others will stay within very small segments, with little emphasis on growth, but on focusing their efforts to provide services to customers in tightly defined geographical areas. What will happen to the unity of the social housing sector if two distinct sectors arise within it? How can we make sure that form follows function and that there is no attempt to impose a uniform model? Is it possible to identify generic models which will work well for particular purposes? For

instance, what structures are better suited to serve functions such as those centred on social aspects or which enable a community anchor/investment role? What kind of structures will best support tenant engagement/empowerment and scrutiny?

The need to secure private finance will be important for all types of housing provider in future. In terms of the overall direction of travel, seeing bigger groups merging is a distinct possibility. Larger organisations will find it much easier to raise money on the financial markets (e.g. issuing bonds). Will the need for bond finance continue to drive formation of larger organisations and collapse of group structures? Will smaller organisations that do not want to become large still be able to grow their business?

Corporate identity, efficiency and service quality are important for all organisations. Given a raft of evidence showing that size is not necessarily a proxy for good service delivery, how can organisations keep performing on these priorities in different types of structures? Is it about culture?

Given the critical importance of the housing service to its customers, especially in the social sector, continuity of service is vital. But are organisations necessarily ‘too big to fail’? Will solutions to failure continue to be found within the sector or will some organisations have to be bailed out by the state?

As discussions on shared services in local authorities grows, consideration of its application in the housing sector is also growing. Can ‘buying-in’ a specific service/function from another housing organisation be a more cost-effective solution? How can we create organisational structures which enable these and other partnership arrangements? Do we need to develop different forms of group structures that are much more around how we work with other initiatives underneath it?

Having considered what drives performance in organisations with a captive customer base, discussions often turn to whether non-profit organisations in the social housing sector could benefit from profit-focused approaches to governance. Could shareholders provide a vehicle for prompting HAs to look ‘harder’ at issues, such as risk, efficiency savings, etc? Could a consequence of a genuinely shareholder-driven sector be that the ‘strong’ could make a bid for and take over the ‘weak’?

Many other countries are wrangling with similar housing and economic problems to those of the UK. There has been a strong international dialogue between housing
providers to date. Is it worth exploring again what other countries have been doing (good and bad), perhaps not so much in terms of transferable learning, but more around generic thinking? What can we learn about housing regulation and finance from the Dutch model and its perceived failures (e.g. the Dutch government’s introduction of a special tax on HAs’ surpluses)? Could the more social entrepreneurial approaches such as the community development corporations in the United States and Canada provide some interesting lessons around structures?

Ideas for new structures and approaches to governance in the not-for-profit part of the housing sector are not uncommon. Do we get ‘too hung up’ about structures? Is organisational vision and leadership more important than having the ‘right’ structures in place or whether an organisation merges or not? If people have the right skills mix and motivation, can organisations deliver regardless of their structure?

**Summary**

The way an organisation is set up, governed and structured is largely a reflection of the objectives and outcomes it seeks to achieve and how this can best be done. The diverse nature of the sector makes a ‘one-size-fits-all’ approach to structure inappropriate. This doesn’t mean of course that there aren’t certain structures which are more appropriate to carrying out certain functions. It is an area worth exploring (particular more ‘radical’ approaches mentioned such as that of creating a ‘shareholder base’) as part of the next phase of this project. Size seems to matter when it comes to levering in finance and much of recent merger activity has been driven by a desire to achieve economies of scale and thus reduce costs. However, there is still a debate whether size correlates with efficiency as well as improved services, although the available evidence does not seem to support this. CIH is currently in the process of revisiting earlier research into this area, which hopes to provide a conclusive answer. Mirroring the discussions in the previous section, the ‘right’ structures might not be that important, but rather secondary to issues of leadership, management and good governance. The contributions which follow consider structural issues from different perspectives.

David Mullins looks at the problems arising from HAs’ desire to grow and, in the process, becoming more detached from local communities. He introduces the idea of the Close Neighbour housing organisation as a way of overcoming what he termed the ‘competing institutional logics of local accountability and scale and efficiency in the sector’.

---

Stefan Kofner provides an interesting overview of social housing providers in Germany. He takes a close look at these organisations in terms of legal status, competitive environment, corporate finance and privatisation pressures.

Jeff Zitron considers how the undoubted success story of the HA sector can continue amidst the challenges ahead, looking at some of the areas which he believes need our attention if the success is to continue.

Grainia Long provides a practical perspective by looking at CIH’s governance review process. She demonstrates how a new approach to governance is critical for future organisational success, and predicts the kind of trustee or board member the sector will need in the future.

In the final piece of this section, we learn about how business transformation is a key shared strategic imperative as well as a cultural driver for Orbit Group, cutting across organisations, functions and teams.
What can we learn from the Close Neighbours project?
David Mullins, Third Sector Research Centre, University of Birmingham

Introduction
Many housing associations began life as locally based, and sometimes community-led, organisations in touch with neighbourhoods and committed to change on a human scale. Funding and regulatory bodies were promoting the logics of scale and efficiency through ‘buying big’ and ‘consistency in service standards’ across large emerging groups. Despite the increasing dominance of this logic, associations still needed to demonstrate that they were ‘in business for neighbourhoods’ and had ‘tenants at the heart’ of all they did. While these organisations had considerable expertise in doing projects in neighbourhoods they had often lost the ability to adopt a genuine neighbourhood focus either in their governance or service delivery arrangements.

The idea of Close Neighbour (CN) housing organisations provided the opportunity to develop and test a framework in which competing logics might be rebalanced in favour of local accountability. We set out ten characteristics of the CN housing organisation. We balanced the first six descriptors concerning local human relationships and accountability with four descriptors more associated with scale and efficiency.

The characteristics of a Close Neighbour housing organisation:

- one of us
- dependable
- aware of what’s going on
- accountable – can be easily found
- accountable – takes responsibility
- responsive – can be influenced but not taken for granted
- capacity to deliver
- connected to wider society
- open to new ideas
- street-wise.

This led to a two-year action research experiment with four Dutch and four English housing associations who wanted to become closer neighbours. Each CN partner developed action plans for change that could be evidenced in two or more specific neighbourhoods, that could be mapped against intended neighbourhood and individual outcomes.
KEY LEARNING

Challenging contexts
Each CN partner was already aware of the challenges they faced in their selected neighbourhoods. All saw the challenges as about more than ‘bricks and mortar’ and were looking for community investment, access to employment and safer places for residents.

The main thing that changed during the project was that CN partners sought to become more directly aware of neighbourhood contexts through increased contact with residents. They recognised the tacit knowledge that local residents (and locally based staff) have to become ‘aware of what’s going on’. This led to decisions to redesignate posts so that some spend most of their time in neighbourhoods, to get ‘housing officers out in the estate interacting with residents’ the majority of the week, to close town centre offices and open neighbourhood access points, to instigate regular visits to tenants’ homes. It also lay behind initiatives to involve residents in ‘co-production’ initiatives, as ‘block champions’, as contract managers and in decision-making on local expenditure. CN partners undertook a wide variety of projects from which learning can be drawn out on three common elements – engaging with communities, changing the organisation and building effective partnerships.

Community engagement
There was a tendency for the projects to start wide, with a focus on all local citizens but to narrow down to focus on the organisation’s own tenants – partly due to financial factors – seeking payback for the core business, and avoiding tenants’ rents paying for wider public services. It was sometimes hard to find the appropriate level for engagement, and it was recognised that support is required to enable involvement in decisions, budgeting and co-production.

Increasing personal links between residents and the organisation was the key learning point; others were to build trust by identifying the things that matter to residents and actively addressing these issues and feeding back on responses. Demonstrating staff commitment (e.g. by volunteering for litter clear ups) was a common action of CN organisations.

Organisational change
Becoming closer neighbours is not about doing projects in neighbourhoods but about organisations transforming themselves to build more effective neighbourhoods. This proposition was readily accepted by the CN project champions, but more slowly adopted
by the wider organisations and parent bodies within which they worked. This illustrates that ‘it all takes longer than you think’ and that structures and strategies are easier to change than cultures. Change management training was needed, not just for neighbourhood-based staff taking on new and broader roles (such as supporting co-production initiatives) but also for middle managers and corporate services whose decisions affect local delivery. Corporate strategies often collided with neighbourhood plans making the process of agreeing such plans with residents an iterative one, requiring alignment of local discussions with corporate plans. In one case deadlock was reached on a neighbourhood plan because there was insufficient buy-in from local authority and health partners. This made the organisation realise that while its tenants expected it to take the lead ‘we are not the only close neighbours required’. In another case, the CN project itself provided the resource that kept neighbourhoods on the agenda during a period of wider organisational change. Tensions between scale and accountability were felt most in governance arrangements; a common problem was ‘how neighbourhood voices will be heard at strategic board level’.

Effective partnerships

The arguments for housing associations engaging with neighbourhoods have been well rehearsed. But the extent to which this is about housing associations going alone and taking responsibility for a wide range of non-housing services or about forming partnerships with other services and community groups is unresolved. The CN projects were learning important lessons about this process, in particular that they need community partners amongst their close neighbours. Collaborative planning is complex and requires listening, so as to develop joint solutions, sharing of information, assumptions and ultimately financial commitments.

Barriers encountered included the absence of effective statutory partnerships, limited mandates to go it alone, the different and unclear visions of potential partners, and ‘unwillingness to share information which means that they will probably not share the costs’. One of the innovative aspects of the project was the piloting of a tool known as the ‘Outcome Arena’ to plan projects based on anticipated inputs and outcomes for a range of local partners and a theory of change about why the inputs were expected to produce the outcomes.

Conclusion

The CN projects all involved competing logics of scale and efficiency on the one hand and local accountability on the other. Attempts to develop a neighbourhood focus sometimes became deadlocked because of barriers associated with the scaling up of
WHAT CAN WE LEARN FROM THE CLOSE NEIGHBOURS PROJECT?

decision processes: the neighbourhood plan that could not be progressed because it was not high enough on the agenda of the other partners. However, sometimes the failure of scaling up provided the opportunity for locally based alternatives to flourish. Corporate procurement of grounds maintenance contracts from a remote generalist contractor built the dissatisfaction with service quality that provided the stimulus for local residents to take control, bring in a locally based business, save money and get a better and more personal service.

But how much was this to do with the CN framework itself? In practice the CN characteristics provided a reference point rather than a route map. In one case the CN project was the trump card used by the project champion to move the organisation back towards a neighbourhood focus in what could otherwise have been a highly centralised structure. CN characteristics provided a narrative to engage residents and staff in discussions about what the organisations should look like in the future. In the end as one CN partner put it the learning was that ‘it’s about head (structures, strategies and resources) and heart (values, commitment and beliefs) and ultimately it’s that latter that is the most important’. The message of the Close Neighbours project is that personal contacts are the best stimulus for real change. We must ensure that such contacts thrive if housing organisations are to be ‘fit for purpose’ in 2020.

Further information about the Close Neighbours project, including the original essay, and learning from the English Partners (Clapham Park Homes, Golding Homes, Trafford Housing Trust, Yorkshire Housing Group), can be found on the Third Sector Research Centre website www.tsrc.ac.uk. The full project report in Dutch and English is at http://www.sev.nl/rapporten/rapport.asp?code_pblc=1035. David Mullins is keen to talk to other housing organisations who would like to become CN organisations and to work with tools such as the Outcome Arena.
The German housing market differs in many respects from its British counterpart. The dominant form of tenure is private renting and the German homeownership rate is very low by international standards. ‘Public interest’ types of suppliers akin to the British housing associations existed only until 1990. The remains of the former public interest sector are now housing co-operatives and public housing organisations. It is interesting to have a closer look at these organisations in terms of legal status, competitive environment, corporate finance and privatisation pressures.

The role of public housing organisations in Germany
The German public housing organisations of today are mostly council-owned and are subject to statutory territorial constraints on their business activities. The structure of their portfolios is still shaped by their historical role as social housing (Western Germany) or publicly owned (Eastern Germany) housing providers. Their stock usually contains a large proportion of multi-storey buildings, often situated in larger settlements at the outskirts of the cities. Some of these settlements are focal points of social problems.

The share of public landlords in total housing supply (including owner-occupied dwellings) is about 8 per cent. Their market share in the rental market alone is 13.4 per cent. All in all they hold around three million dwellings.

The public housing providers do not have a specific legal form or system of regulation. Their public owners are free to choose the legal form from the corporate law ‘menu’. Usually a public housing company will be a ‘GmbH’, i.e. a limited company. In relation to their private competitors there is almost a level playing field: the public organisations are subject to the same tax and rental laws.

The business mission of the German public housing companies is ambiguous, divided between public interest (= social return) and profit maximisation. In fact the degree of profit orientation will differ from organisation to organisation. At one end of the spectrum, there are public providers acting almost like private housing companies in terms of profit orientation and management methods. At the other end of the spectrum, you will find providers with a deeply ingrained caring culture where stakeholder value is more than an empty phrase.
The business mission of an individual organisation depends on the local housing market and the local political context. In tight housing markets, public housing organisations usually do their best to provide affordable dwellings for disadvantaged households. If they own stock in neighbourhoods with a high proportion of migrants they might engage in integration projects. In low-demand areas, public providers are often engaged in a housing market ‘restructuring process’ through selective demolitions, akin to the English housing market renewal pathfinder bodies.

The scope of the business activities of public housing companies is limited by financial constraints. Whilst their access to debt capital is limited by their own creditworthiness for the most part, they have usually no access to outside equity capital because their public shareholders are not able or willing to inject new capital into their holdings. Some heavily indebted communities are even trying to skim off the liquidity in these companies. The organisations are thus limited in their investment potential, especially in new developments. Several public authorities have already sold their housing stock to private investors including the public pension insurance scheme, the German railway operator and cities – like Dresden – that are in need of cash to re-balance their budgets. Merger activity between public housing organisations is still limited, however.

**The role of financial investors**

A small group of financial investors (e.g. Fortress and Deutsche Annington) has built up large risk-dispersed housing portfolios by acquiring housing portfolios from the public sector. An example is Gagfah S.A., a PLC under Luxembourg law acting as a holding company (listed on the German stock exchange) for the German housing companies GAGFAH, NILEG and WOBA taken over by the Fortress Private Equity Group.

Private equity groups promise their investors to achieve rates of return between 10 and 15 per cent after inflation and taxes. Needless to say, with housing, such rates can only be attained with active portfolio management and surely not by simply ‘buying and holding’.

The Gagfah group has incited a lot of bad press comment in recent years. The information for their annual reports indicates – when benchmarked with comparable organisations – that Gagfah neglects property maintenance and have almost stopped modernising their housing stock. On the other hand, the company has distributed high dividends per share even in loss-making years. The Gagfah case has given rise to doubts whether allowing an important market share by financial investors in the housing market is a good idea.
Efficiency
And what about the comparative efficiency of public housing providers? Studies by the Technical University in Dresden and by Deloitte and Touche management consultants both conclude that there are no significant efficiency differences between municipal and private housing companies.

Professor Georg Hirte from Dresden University of Technology and his team have investigated a panel of 69 companies with an average of 17,000 residential units each, using the DEA method (Data Envelopment Analysis). Whilst efficiency is independent of the ownership structure, the size of the company plays an important role. In particular, medium-size housing companies (5,000 to 30,000 residential units) and a few larger companies with more than 60,000 residential units are among the most efficient.

Deloitte and Touche used a process-oriented approach for measuring comparative efficiency of housing companies. Using the Value Map approach, the relative efficiency of the processes is assessed. The Value Map defines four core areas of economic value creation for housing companies: rental income, operating income, assets and strategy. At the detailed level, business processes are analysed and 49 areas of action are identified: they include modernisation, tenant relations, marketing, advertising, personnel management, partnerships and networks and governance. For almost all fields of activity quantitative measurement variables were developed. Using this methodology the assumption that public housing companies were less efficient than private housing companies turned out to be false.

The future of public housing in Germany
The basic problem of the public housing companies is their limited access to investment capital. Because of this financial restriction they seem to be predestined for a passive rather than an active role in urban development, hence having more demolitions than new developments. Further privatisations and mergers can be expected in the future, especially in cities with budget problems.

Professor Theo Kötter from Bonn University believes however that a municipal housing stock is an indispensable tool for socially responsible urban development. Private providers would deliver social return only if specifically tailored subsidies were handed out to them. With a local housing stock these processes could be managed more efficiently, in his view.
An important question in this context is whether the council-owned companies are adequately controlled to allow them to deliver adequate social return. To ensure this, the key objectives must be set out in their statutes (raising questions of measurability of these benefits through key data). Also, the relevant institutions in the corporate governance system of public companies should review their compliance.

All in all, it seems to be more practical for local authorities and more effective if they could work together with major market participants in a cooperative relationship. This is particularly true on issues of urban redevelopment and demolition. The necessity of owning a large housing portfolio might be questioned in future, depending on the local housing market situation.

Ultimately the question of the optimal type of supplier is a problem of institutional economics. Across the spectrum of possible types of suppliers (direct operation – arms length organisation – council-owned private legal entity – non-profit providers – co-operatives – private providers) a mix of suppliers has to be determined to achieve the desired level of performance in terms of social return, in a cost-efficient way.
The success story: final chapter or new volume?

Jeff Zitron, chair, Altair Consultancy and Advisory Services

Housing associations are a success story. The sector manages over 2.5 million largely good quality homes, housing many people who would otherwise stand little or no chance of affording (or in many cases, even finding) decent housing. Associations have built 45,000 homes a year and have helped save council housing from an investment drought. The £60 billion of private loans and internal funding generated by associations is an impressive multiplier of the £34 billion of funding ploughed into the sector by the state. Associations have kept rents to less than half the private sector’s, helped over a third of a million people into homeownership and provided a wide range of jobs, training and support to disadvantaged people.3

Several factors account for the success, including generous capital grants, the steady infusion of housing benefit, talented staff and smart regulation. Housing scarcity, combined with low rents and a volatile economy, have also erected handy barriers to substantial market entry by the private sector. The ever-present mistrust between central and local government has similarly stopped councils being serious competitors.

Many of these success factors are about to disappear or be diluted. The decline in public funding, combined with higher rents, means that the developing part of the sector – which, of course, manages the bulk of the stock – will be forced to go head-to-head with the private sector. Volatility in the economy, in the past the sector’s friend, will now affect associations in the same way as other businesses.

So what does this all mean for housing associations and how they are run, especially given that most remain committed to helping the most disadvantaged? The challenges, and therefore the changes needed, are in three main areas: strategy, finance and governance.

Strategy is an uncomfortable topic for many housing associations, their executives and their boards. As practical people, housing folk are often – like the elder George Bush – wearied by this ‘vision thing’. Our colleagues know to talk the talk of ‘strategy’, ‘mission’ and ‘values’, but often feel it’s all superfluous; that we are a sector buffeted by government policies – and changes in and fads thereof – and that debating strategy overstates our independence and wastes time better spent on practical matters.

That attitude could not be more wrong. Cuts in grant and benefits will bring tough times for our tenants and other customers, and to us as organisations. But this is also about liberation – as, shown for example, by those associations that have diversified and shaken off their reliance on intravenous SHG. Some of that has come through opportunism, and a little through luck. But, if you look behind the success, it is always down to having a clear strategic vision and strong leadership with the capacity to turn vision into action. The new ‘Affordable Rent’ regime should focus associations on fundamental questions about who they are here to serve. Thoughtful associations start from the right end – the customer – and ask what kind of organisation they need to be to serve the purposes they have chosen. They achieve this through greater systems efficiency, better use of technology, smarter procurement, cleverer customer involvement, imaginative staff development and more sophisticated asset management. Deeper strategic thinking – coupled with the tools to turn that into action – turns a problem into an opportunity, or even a source of liberation.

Finance is another constraint that is also an opportunity. We are in an age of austerity, but the age of austerity needs to be the age of intelligence – in both senses of the word. We need ‘intelligence’ in the sense of having bright minds within our organisations who can spark off bright external challenge. ‘Intelligence’ also means keeping abreast of what is happening in the wider world, and having the techniques and the professional depth needed to devise innovative solutions – bonds, tax-break finance, creative use of prudential borrowing, off-balance sheet funding – to stretch our resources to do the most. But with that creativity boards must be equipped to manage these more complex risks and to comprehend fully the level and nature of board assurance we now need.

Changing the way boards work is going to be tough, as some of the treasured – or at least totemic – parts of our governance structures that were past their sell-by date 20 years ago are certainly not up to today’s task. It is worth noting that the success factors listed above do not include our governance structure. Some aspects of our governance are commendable: the fact that we can harness through our boards enormous expertise, either for free, or now more commonly at modest cost, is remarkable. Our much undervalued tenant-led associations are a great example of this. But the reality of many housing association boards is that, even with excellent individuals, they act as little more than an audience for the executives to perform to. A favourable external environment – now on the wane – has masked the deficiencies of our governance; many who know the sector well would concede that housing associations’ achievements are often despite, not because of, their governance. The governance problems fall into
four areas: ambiguous accountability; mismatches between structures, responsibilities and incentives; the bogus nature of voluntary status; and the peculiar position of senior executives.

Everyone knows about the ambiguous accountability of associations – board accountability to shareholders almost never exists, and is often disastrous when it does. No one has cared too much in the past, not the least because the de facto accountability – to the regulator – has largely filled the gap. But with an emaciated regulatory structure, the assurance we have relied upon will evaporate.

This links then to the issue of mismatch. Commercial shareholders hold residual risk, the final financial backstop when the money runs out, and the cornerstone of accountability. For housing associations, we rest our £10 billion turnover business not on the perceived interests of shareholders, but on the competence and commitment of a board structure dominated by non-executive directors (NEDs). Is this a good way of working? This question, in turn, leads to the issues of competence and accountability, the title of the seminal NHF publication on governance. Although we’ve come a long way, many boards still operate as a collection of stakeholders. Some councillors slip all too easily into the language – and behaviour – of being representatives, not company directors. Tenants are often sent confusing messages about where their duty – or even loyalties – lie; few associations put sufficient effort into tenant board member development and support. Here is a good test if you are dubious about the argument that the average housing association board is not fit for our new purposes; which of the boards you know would you trust with your life savings?

Much of this problem stems from the fourth area of concern, the sector’s now largely mythical voluntary status. Voluntary boards once successfully aligned incentives with responsibilities and accountability. Many of us started our housing association careers in organisations where board members had personally pledged or donated funds to buy and refurbish homes, and also devoted considerable time to collecting rents and managing the stock. While a majority of associations are still voluntarily run, the vast majority of the stock is owned and managed by associations that are in no true sense voluntary.

And this leads to the last area of concern, the odd role of housing association executives. Our sector relies inordinately on NEDs and, as such, is unlike any other major sector. PLCs usually have a majority of executives on the board, recognising that

executives drive strategy and deliver performance. Take Tesco, which has a board of 17, nine of whom are executives. (Note, of course, that Tesco, were it a housing association, would be in breach of the current NHF code of governance by having far too large a board and far too many executive members. Clearly, given their governance howlers, Tesco must be a completely hopeless outfit.) The National Health Service has a structure nearer to that of associations as NEDs can’t be in the minority on a board, but the reality is almost always a near 50:50 split. Private limited companies will often have only one or two NEDs on a board of six or eight.

So what should we do about all this? Why not follow the example of Germany in the early 1990s? When its large housing associations stumbled financially, the government simply abolished not-for-profit status, which meant someone had to take residual financial risk. Germany now has a wide range of housing associations, each reflecting the different ethos of its owners – local authorities, tenants, trades unions, employees and commercial investors, for example.5 This approach creates accountability with bite, by linking risk and reward without diluting social purpose. Some of the proposals in the Policy Exchange paper on housing association finance6 would effectively achieve this by grafting capital-raising structures onto housing association governance, a less radical but more complex approach.

Even if we don’t go down such a radical route, we need to reshape the typical housing association board, both to ensure that executives feel – and legally hold – the same level of accountability and liability as any board member, and to match accountability with the reality of power and responsibility. Although this means cutting the number of non-executives, it would allow them to play the crucial NED role of providing challenge and wisdom, hard to perform at present when, by being the dominant group on the board, NEDs are effectively complicit in executive decisions.

The new world means that housing associations, if they are to remain focussed on working for and with the most disadvantaged, have to find ways of liberating energies, creating genuine incentives and successfully managing new types of risk. If we can recognise and respond to the need to be bold, this success story will run and run.

---

5 For more information on Germany’s housing associations, see CIH (2006) The future of regulation of the affordable housing sector in England by Jeff Zitron with additional research by Christoph Sinn.
New reality, new governance

The Chartered Institute of Housing has spent two years reviewing its governance with the aim of being fit for purpose. CIH Director of Strategy Grainia Long provides her perspective on how a new approach to governance is critical for future organisational success, and predicts the kind of trustee or board member the sector will need in the future.

Anyone interested in governance remembers where they were in December 2001 when Enron when into administration. They watched in disbelief as a US corporate giant publicly unravelled, dumping staff and investors without savings and pensions, and leaving many financial institutions to bear the financial brunt. Ironic, you would think, that a decade later some of the same financial institutions – and many more – have had similar falls from grace and have clearly failed to learn from the mistakes of their erstwhile competitors. Effective organisations must be learning organisations – those who carefully observe the failings of others, and do differently. And what learning organisations tend to have in common – is good governance.

Governance has recently become the watchword for debates on corporate strategy. It is blamed for all manner of organisational failures – at the Royal Bank of Scotland, at Anglo Irish Bank – the list goes on. Perhaps governance gets the blame because, like an Icelandic volcano, we feel it is outside our control. But bad governance is not a natural disaster – it is entirely the fault of human beings, and usually the fault of governors themselves. Last year, in the Harvard Business Review, Robert C. Pozen asked why, despite huge changes to corporate law in the US following Enron, financial institutions were still found wanting in their governance? Since 2002, boards had been required to be independent and were subject to internal controls and review by external auditors. Why had this not prevented the fall of Lehman Brothers and many more? In his view, it was because the quality of the people serving on boards had not improved.

This truism lies at the heart of the theory and practice of governance. For excellent governance we need excellent governors – and often those at the top of an organisation are ill-equipped or ill-disposed to change.

For housing organisations, many of whom are dependent on the goodwill of governors to give their time to a social organisation, this poses a quandary. Some already struggle to attract interest from potential trustees, and the Charity Commission has found that 66 per cent of large charities and 72 per cent of very large charities are having difficulty finding trustees with the appropriate skills. So they worry that changes to the
appointment of governors will put people off. But quality and access are not mutually exclusive – many organisations succeed in enhancing the quality of governors while also increasing the number of applications to join. In my experience, one begets the other.

The trick is to know how to start, and what success looks like. In 2009, the CIH established a review of its governance. Over the course of two years, we have undertaken an organisation-wide conversation on our vision for good governance and how our current system should change. Last year, our AGM approved a framework for reform, and this year the details of those reforms will be put to the membership for final approval. The changes will transform how we govern ourselves, and will be – I hope – a model for good governance in the future. As for organisational learning, there are plenty of lessons:

• **Governance reform works best when initiated by governors at a time of organisational success.** The catalyst for the review was to improve how we achieve our organisational objectives – thankfully, not a crisis or an organisational failure.

• We were **clear about what we wanted to achieve** – fit for purpose governance. That was the key principle. We followed the ‘form follows function’ adage – spending many months discussing what we wanted our governance to achieve before we began to talk about structure.

• **Good governance reflects organisational values.** As a professional body, we are committed to standards and to individual and organisational performance. To reflect this in our governance, we have reformed our approach to appointments – future trustees will be openly recruited on the basis of skills and experience.

• We **valued the views of all stakeholders** – not just our members, but those who have chosen not to join CIH, and asked them what they wanted from our governors.

• We recognised that introspection can sometimes give the wrong answers, and **invested in an external diagnosis** of our governance, which gave us an independent perspective. For their part, governors responded constructively to the issues identified.

• Supported by the external diagnosis, we acknowledged that **governance and representation are an illusion.** Several of our trustees are elected by members in their regions or nations. This leaves them feeling like they must ‘represent’ their geographical area, when in truth their role on the Board is as a member of a collective. As a result, we have severed the link between governance and representation by ending the system of appointment through regional and national elections.

• **Good governance puts organisational strategy in the hands of a core group.** As we developed proposals for change, we have strengthened the strategic decision-
making role of the new Governing Board. Corporate governance research shows that reducing board size improves decision-making effectiveness, so the Governing Board will reduce from 32 to 15.

- **The knowledge and experience of our members is a key organisational resource.** Formalising the flow of information and intelligence to influence organisational decisions was therefore a priority. As a result, responsibility for ‘business’ decisions has been devolved to a series of delegated boards, made up of members from across the organisation.

- **Trustees deserve quality information and support to make decisions.** Expectations of governors are high, and much is required from them. Yet, they are rarely provided with the support they need. A transformed system of governance will invest in the personal development of governors to be the best they can be, and will ensure that the information they need to make decisions is readily available from the executive team.

- **Trustee behaviour and commitment is a critical success factor in governance.** The best trustees do not join a board for the status it brings, but to genuinely invest their time and energies into ensuring the success of an organisation. As a professional body, our trustees must be supported and equipped to fulfil their duties, and in turn, seek nothing in return but the benefit of the organisation.

- **Trustees should promote organisational learning and effective oversight.** Formalising how we evaluate our governors is built into the new system, and each year, the Governing Board will report directly to members on their performance, and on the performance of the organisation.

- **Finally, no system of governance is perfect.** No doubt as our new governance framework is implemented we will have to make amendments to its operation. The big lesson we’ve learned is to never take our eyes of the governance ball – there will always be improvements to be made.

Whether these aspirations for a transformed system of governance work in practice, remains to be seen. What is certain is that structures and processes will not ensure success, but the right people, supported and equipped to do their job, will significantly increase our chances.

As for the future of governance in housing, I suspect that many other organisations will review how they are governed. My hope is that they will do this proactively, to avoid organisational crisis. As the regulatory frameworks across the UK (and also in Ireland) enhance their focus on governance, organisations will increasingly be required to demonstrate that it is fit for purpose. In Northern Ireland, housing associations will be
required to reduce the tenure served by board members; therefore we expect the recruitment of a new generation of governors. In the Republic of Ireland, where there are several hundred small housing organisations, it is likely that regulation will result in a transformation of how organisations are governed. In Britain, where new investment models are being tried and tested, where a changed public funding model will see associations enhance the diversity of their borrowing, governors will be required to have much greater knowledge and understanding of risk and oversight.

I sincerely hope that in housing we will learn lessons from the banking crisis – and not assume that the right processes rather than the right people lead to good governance. I predict a different kind of governor in the future – one more interested in how organisations work, in how good strategy can deliver organisational objectives:

• Trustees will proactively seek to understand the external environment – the organisation’s competitors, the risks to the organisation, and will constantly think, ‘will this action achieve corporate objectives?’

• Trustees will be more proactive challengers – and will increase their focus on the long-term strategic direction for an organisation, and on long-term viability.

• We’ll see growth in the professional board – with organisations increasingly investing in remuneration to attract the right board members, and as a way to enhance accountability.

• Boards will have a stronger relationship with service users, and will be much more proactive in reporting to members or shareholders on their performance.

• The individual trustee will be keenly aware of their personal contribution to the organisation, will be a standard bearer for effective leadership and will inspire a culture of performance.

• For their part, organisations will invest more heavily in governance – not just in monetary terms, but in the staff resources required to support governors, in the information provided to governors, in the learning and development of governors.

None of this change is a guarantee that organisational crisis will be averted in the future. What it will do is bring a new generation of professional governors to the housing sector – whether paid or unpaid – supported and equipped to deliver for communities.

References
Case study – Orbit: transforming today, ready for tomorrow

Introduction
In 2008 Orbit identified ‘business transformation’ as the single most important factor underpinning future success of the organisation. The question for Orbit was no longer whether to change but how, and to what. However, it has become apparent that the ability to transform is even more important now as we go into a very uncertain and challenging future which will require us to significantly evolve as organisations.

Our journey 2008-2013
Following the completion of three mergers and a significant increase in scale we focused on becoming ‘great’ in terms of services provided, investment in the places where people live and in the quality of the organisation by April 2013. We reflected on the external environment and identified key business drivers for Orbit which included developing a new relationship with our customers, developing our leadership and management capabilities and investment in technology, as well as reviewing our structures and supply of funds. This led to some key changes including:

Customers
Our Customer First Strategy brought together a range of projects and initiatives designed to deliver a step change in the way we interact with internal and external customers. This included new tools such as mobile working, customer relationship management and cultural drivers such as staff empowerment and Customer First Awards.

Structure
We embedded Orbit’s federal structure supporting four distinct businesses, all capable of providing and growing their services and turnover. Each is responsible for developing its own change programme within the overall Orbit framework, building momentum from the ground up.

Markets
We responded to the changing investment environment for registered providers as well as the housing market and funding regime into the future by setting up Orbit Homes. This is an independent development company with its own building division – Orbit Build – with a more commercial approach and culture.

Services
Orbit Services provides support to all Orbit partners and others and we sought to transform it from an in-house back office function to a full service company. This has supported a market culture within Orbit and has increased its turnover, generating £500,000 of external income in 2010-11.
People
Investment in our people to make deep transformation a reality was key. We launched a range of development courses and toolkits to equip our leaders and teams for the change ahead to create understanding, support and momentum for change. We have subsequently established Orbit Academy to drive how we maximise the potential of customer, board members and staff.

Our plans to 2013 set us on a journey and we will continue to deliver the outcomes we identified, however our world does not stand still and throws up new challenges to be addressed.

Beyond 2013 to 2020
In 2010 we recognised the need for a further more radical transformation programme in the light of major external changes we faced. This went to the very heart of who we are and what we may be able to do in the future.

In 2011 Orbit established the ‘Orbit 2020’ project which will explore what the world will look like in the next decade across our key themes of Customer, Place and Organisation and then research and test a range of possible responses.

We are using a methodology we have been involved in developing which triangulates risk, return and direction and then drives transformation through a 5-step process. This is helping us to understand our future environment; explore our business drivers; develop a more radical vision; identify our change agents and focus on our desired outcomes.

Our findings, and those of the independent experts involved in this initiative, will shape how we will change as an organisation, reconfigure our interactions with customers and evolve our model of developing great places to live.

It is far too early to predict the outcomes and eventual shape of our business in 2020 but we remain totally committed to our enduring ambition of ‘Building Brighter Futures for People and Communities’.

Conclusions
We expect and can respond to a more radical future to deliver our ambition and that of the people and communities we serve. It is clear that our ongoing ability to transform will be critical in enabling us to shape our own future and manage the changing agenda rather than just respond to it.
Section 4

Business transformation – finance
Despite the difficult economic climate, the housing association sector’s operating conditions are generally improving. Indeed, compared to the wider property sector, housing associations’ performance largely remained strong throughout the credit crunch, due to a business model which is based on ‘stable’ income streams in the form of rental income and housing benefit. Greater market exposure as a result of a more diverse funding portfolio has increased financial risks for housing associations. Other issues to consider are the impacts a reduced credit rating for the sector would have on continued bond market activity, bearing in mind that it remains an important source of finance. Equally, the use of equity finance, which has been repeatedly called for, would further increase market exposure.

Local authorities cannot currently claim to be in a strong position after a tight financial settlement in 2011/12 and pressure from cuts in non-landlord council services. But prospects beyond April 2012 are much brighter: although councils will collectively take on significant extra debt, some for the first time for many years, they will also have full access to their rental income. While the first call on this will be debt costs, there should be at least some headroom for investment in existing stock.

With grant levels to be reduced significantly and the traditional model of cross-subsidising capital investment from property sales at a low point, new or additional ways of funding are needed to provide the sector with a stable platform for growth in order to meet continuing demand for quality homes at a price people can afford. The same is needed for low-cost homeownership and so-called intermediate rent products given that demand for these is set to increase (particularly in the light of ongoing shortage of mortgage funding and lenders requirement for higher loan-to-value ratios). Furthermore, we have to find new resources to carry on with the delivery of non-housing services which have been greatly affected by the massive public spending cuts.

In an environment where money is extremely tight, housing associations are currently able to borrow on excellent terms. How can they make the most of this in the current environment? Is the issue of how money is spent more important for associations than where it comes from? And is the sector as a whole in a position to define what activities will be required over the next ten years so it can work out how this can be enabled in terms of financing?

With around two-thirds of rental income underwritten by housing benefit (HB), the sector is seen as relatively safe by lending institutions. Since cash flow is a very
important determinant from a financier’s point of view, proposals to reform HB and wider welfare have the potential to undermine lender confidence. Can the scale of the risk be quantified? How far can the sector and its partners change working practices and available services to reduce risks? As government is committed to these reforms, what concessions could it make to help protect the sector’s vital social investment role?

Given an increasingly diverse funding portfolio, parts of the sector are migrating to a more ‘risk-taking’ culture. How can more organisations get to a position where they can accurately state risk appetite and are willing to balance that with a return? Does ‘risk complacency’ exist on any scale within the sector, where businesses do not envisage a future underpinned by grant and regulation. How can this be overcome so the whole sector is prepared for a potentially less interventionist model?

The sector has made big strides in terms of efficiency, but there are practical and regulatory pressures to go further. What more could joining up, partnerships and collaborations do to help achieve efficiencies? How can we help more people to make spending decisions based on knowledge not instinct? Is there a risk that the localism agenda could reinforce parochialism, silo working, risk aversion, etc.? Is there a risk that localism could hinder the sector’s desire to provide consistently coherent approaches to dealing with value for money, and if so how can we ensure that it is maintained? Could the sector’s representative groups do more to explore whether certain rules, such as those around VAT and procurement work, could be reformed to better support effective performance and operations?

There is significant equity in the sector in the form of historic housing grant. Finding ways of unlocking this money could be central to the sector’s financial future. Can the sector develop a holistic model to show government how the asset base in the sector, along with the right rent regime, could help? Could a ‘utility type regulatory model’ help by enabling equity release? Is there a way to use equity release to lever institutional investment into the social sector?

There is a real need to maximise value of all available assets, especially in the context of the new affordable rents and housing revenue account systems. How can we move towards a scenario where organisations are much more like portfolio managers and are comfortable with this approach? What can be learned from the Dutch experience? How much finance could be raised this way? What skills and approaches to governance are needed to enable housing providers to behave more like commercial property companies? What would this approach mean for the tenant experience?
Equally, there is great scope for activity-based costing to determine cost-effectiveness of the stock. Does the sector have good enough knowledge of what drives unit costs to make informed decisions? How can organisations be helped to develop a good knowledge about the value of their asset base?

As access to grant funding wanes and the need for new homes continues to grow, public land is getting much attention. Making the most of land value is important for local authorities and other housing providers, and there has recently been development of value-capture schemes where the LA provides the land at no cost and another provider develops the homes, with both parties sharing the risks. How will the post-HRA regime drive LAs’ behaviour in relation to their own land? How can we drive symbiotic behaviour between local authorities and housing providers? Could government create the environment through regulation to foster a shared market and a mechanism that allowed for sharing between the two sectors and build on the economies of scale from shared services and expertise?

Changes in public funding and organisational borrowing capacity are causing people to start thinking about a fundamentally different funding framework. How can we develop a system that recognises that housing markets differ significantly? The key building blocks for a new funding framework could include:

1. a tax mechanism, of which REITS seem to be the most promising.
2. a mechanism that encourages unlocking equity in housing organisations. This would fit nicely with issues around intelligent asset management and can therefore be viewed as both a cost-saving mechanism as well as an ‘equity generating’ device.
3. linking rent increases to efficiency and investment targets, which is very much akin to the model used in the utilities sector.

Summary
Housing associations have proved their resilience amidst the economic downturn and credit crunch. Lender confidence in the sector is high and organisations continue to be able to borrow on preferential terms compared with other sectors. With bricks and mortar subsidy greatly reduced (and likely to reduce further in the future), reliance on private sources of finance will increase and with it the associated risks. Investment will be predicated on income from higher rents, taking many associations into a new or at least bigger intermediate market, at a time when the economic environment is highly uncertain. Added to that risk are the potential effects of the new restrictions on housing
benefit now being phased in. To add still further to the uncertainty, housing benefit is due to be subsumed into the new universal credit, where the treatment of housing costs and the handover of the administration of benefit are still unclear areas that might in future prejudice rental incomes.

Steve Partridge asks the question ‘what next for the sector?’ as it enters an era of reduced grant funding and squeezed welfare support. Whilst there are no easy answers, he points out two issues which will be key as we move forward, namely efficiency and diversity.

The second contribution provides a lender’s perspective. Jessica Castle and Amelia Henning from RBC Capital Markets continue the theme of reduced grant funding by looking at how organisations might respond to this, setting out how the finance world is likely to view different options and the corresponding impact on pricing.

In the final piece David Cowans sketches out a potential new financial framework, using the ‘Affordable Rent’ mechanism to provide an income stream to fund an injection of equity from institutional funds.
A permanent change of outlook
Steve Partridge, Director of Financial Policy and Development, ConsultCIH

On the face of it, our sector faces a very stark situation. Increasing costs of finance, reducing amounts of direct government grant and support, pressing difficulties in the economy as a whole which increases the vulnerability of our customers, cost pressures driven by the world economic situation and – though the income we book to our accounts continues to increase – the imminent prospect of not being able to collect as much of it as has been relied on in the past. Everywhere we look, the risks are increasing.

And we can add to this financial picture: reduced regulatory input to protect the interests of the vulnerable, and a switch from government scrutiny of performance to one which requires customers themselves to exert that scrutiny.

How might another industry respond to this set of factors? – withdrawal of companies from the market, wholesale closure of businesses, outsourcing production to the Far East? In short, a major sector restructure?

Much has been said about how regulation comes in cycles – how one government increases regulation and scrutiny only to be followed by one which rolls it back. In the end, it is argued, what comes around goes around. In some ways we can see these contradictory trends happening at the same time – rolling back in England, but perhaps a greater regulatory focus in Scotland and Wales. Other standard lines include: government must increase funding for new build at some stage as there will be no houses being built... they can’t abandon central funding or refurbishment – it can’t be funded locally and property conditions will deteriorate and we’ll end up needing a decent homes programme all over again. But under this government’s policies, could this cycle now be broken for good?

The sector has grown used to arguing its case around the need for more public support – when times were good and money was cheap, we said we couldn’t do it without more public subsidy. In many ways, this is an allegory for the whole economic position, public expenditure grew when the economy was at its strongest – yet development was still relatively low historically. In the same way as the public sector is simply having to cut back on funding, our sector needs to find its route to providing ‘more for less’.

In all the talk of challenges and hardships, we can still point to some major sector advantages: there is a very stable asset base, a relatively stable customer base (and one
which is generally growing), organisations are generally well-governed, generate significant revenue surpluses, have access to relatively inexpensive finance and there is apparent appetite from the markets for more investment. One thing that is not going down is the level of rent. And if it feels harder for housing associations than it has been, for the local authority part of our sector, there’s a contradictory signal about ‘release’ – release from a national redistributive system which has prevented the opportunity to enjoy some of the revenue flexibilities that have been available to associations for years.

Another key question is whether we are seeing a permanent shift in the balance of support? Back at college, we studied the balance between ‘personal support’ and ‘bricks and mortar support’. We asked questions around what the features of high grant/low rent looked like compared to a system based on lower grant/higher benefits, and what were the consequences.

For new properties, the balance in the relationship has been stable for decades: of the total cost of a social rented property, roughly 50 per cent from bricks and mortar subsidy to keep rents relatively low, roughly 30 per cent in personal welfare support and 20 per cent paid for by customers. The balance is changing – for the new ‘Affordable Rent’ supply, this might be say 20 per cent bricks and mortar and a squeeze on the welfare support side to keep that as close to 30 per cent as possible. And if properties let at social rents now are relet at ‘Affordable Rents’ in any great number, this support balance could change quickly in large parts of the country.

Despite the obvious challenges this set of factors might cause in the future, in many ways the market has already moved on. In the past, we have tended to see the ‘private market’ and the ‘affordable/social’ market as distinct and somehow unrelated. We talk of an ‘intermediate’ market which somehow bridges the gap between the two. But demand and need for housing is not discrete. It has a continuum – a continuum that is based on the ability to afford housing, and the very fact that we need an intermediate market suggests a disconnect between supply and demand which needs to be addressed. The rising age at which people are accessing homeownership for the first time provides powerful evidence that it is not as simple as being in one camp (private) or the other camp (social).

We can’t of course get away from the fact that there is an overall shortage of housing and that is a critical factor in making private sector housing too expensive for many. But those who begin to see housing across all sectors and tenures in terms of a whole market with a range of price signals and a range of ability to afford those prices, could begin to release value for investment in new housing.
So... can we survive and prosper in a new era of lower bricks and mortar subsidy and squeezed welfare support? Sure we can – but it will need us to restructure our businesses, and our stance towards public support may need to change, particularly if this and future governments continue to resist calls to restore grant funding.

The only way we can house the vulnerable is to cross-subsidise affordable housing from somewhere. If it does not come from ever-increasing welfare support, and it doesn’t come from increasing central grants, the main routes will be from the private sector or to use the revenue flows from existing properties. A focus on those revenue flows will be the key to a sustainable future.

So what does this mean for our sector?

There is certainly no prospect of a short-term return to grant-funding levels of the last few years and some might argue that the days of anything more than 20 per cent grant are over for good. We are almost certainly looking at a permanent move towards a revenue-financed future with capital grant available only in the most exceptional of cases.

At the same time there is no future which does not place a more active and direct focus on collecting income from an increasing number of customers that will have to pay more rent. Organisations should not baulk at this – every other business has to collect all of the income due to it – but the likely problems caused by universal credit and payment to tenants should not be underestimated in the short term.

All of which means two key messages: to be more efficient and more diverse.

More efficient... to protect the future and to release resources for investment: lower unit costs, lower build costs, lower central costs, setting standards which are deliverable and supportable – first to maintain revenues in the face of reduced benefits and higher finance costs, then to release resources for reinvestment.

More diverse... the usual thinking in a new context: market renting, ‘Affordable Renting’, seeing housing supply across the market continuum, growing net revenues based on a diverse portfolio which might run across organisations as well as within organisations, councils developing and regenerating as revenue resources grow after self-financing.

A more efficient sector driving value from an increasingly diverse asset portfolio, building on those key strengths of governance, relatively available finance, a stable existing asset base and a market of available demand, should be a successful and thriving sector.
A PERMANENT CHANGE OF OUTLOOK

The most successful will be those where plans are based on there being a permanent change in the balance of support – to prosper could mean being able to survive and grow in a future in which there is no central grant funding for new affordable housing. The challenge for each provider in our sector, specialist or general, south or north, housing association, local authority or ALMO, will be to find its own balance and its own place in that restructured future.
Housing association financing in the new world: the opportunities, risks and challenges

Jessica Castle, Vice President, Corporate Debt Capital Markets, RBC Capital Markets
Amelia Henning, Vice President, Social Infrastructure, RBC Capital Markets

The new environment for social housing presents both risk and opportunity in respect to private finance. The reduction in public sector grant support for social housing, and the revisions to the rules surrounding this, present social landlords with an opportunity to develop new approaches and manage their stock with increased flexibility. They also have the potential to damage the credit profile of social landlords, making funding harder and more expensive. The balance is delicate and one we believe policy makers, executive directors and boards need to be aware of as they progress change.

At this crossroads the questions everyone in the sector must be asking themselves are:

• How do we manage the transition away from grant? and
• What will our organisation look like in five years time?

We don’t have all the answers, but can set out how the financing world is likely to view different options and the corresponding possible impact on pricing.

Many have been expecting cuts in grants for some time and although it has come as no surprise, there seems to be a lack of consensus as to how best to respond. There are a number of options under discussion including: capital release; introduction of equity investment; expansion of development; or simply man the defences and hope the public funding gates will reopen.

To make things even more interesting these paths are not mutually exclusive and different associations may want to stroll, walk or run in any given direction. While you might expect that a credit officer at a bank may prefer associations to take little or no extra risk, it is generally accepted that it’s better to lend to a growing business rather than a stagnating one. Most funders recognise that many housing associations want to grow and that becoming more ‘commercial’ is an inevitable consequence of government cutting capital grants and the market maturing. Funders aren’t scared of commercial organisations – commercial organisations make up the majority of every bank’s loan book after all. What banks and rating agencies do worry about, is organisations taking on too many risks or risks that are not properly understood, creating volatility in revenue streams and jeopardising their ability to pay debt service.
It is not a funder’s place to dictate what risks any given business should take, although we will generally impose some discipline by questioning the assumptions and logic of the business plan and in setting financial covenants. The cornerstones of low-cost funding for housing associations to date have included:

- subordinated government grants as a ‘cushion’ for senior debt
- regulation of governance and financial viability
- a proportion (about 60 per cent) of revenues being quasi-government cashflows through housing benefit
- security over assets.

Any substantive move away from these will inevitably impact the cost of funds for housing associations. This may be a positive trade off but we believe it is important that boards go into this with their eyes open. For example, ‘Affordable Rent’, private sale development and commercial intermediate rent products could all reduce the relative proportion of a housing association’s revenues received from housing benefit (i.e. the quasi-government cashflow) and increase arrears. Equally, they may increase a housing association’s ability to manage its stock as a whole and improve returns on investment, replacing the lost grant. Already some associations have issued unsecured debt, albeit at a premium to their secured issues and more may well look to follow as their asset base becomes more constrained. Given the other challenges and changes the sector is facing, the regulator’s role of monitoring governance and financial viability, as well as their powers to intervene, will become even more important to funders and one we expect to see preserved.

In order to retain the low cost of funding we believe it’s important to retain as much of those cornerstone credit characteristics as possible while still allowing individual associations and the sector as a whole to grow. None of the above characteristics necessarily need to represent a ‘must have’ in their traditional form. What will be important is to present the strengths of each housing association’s core business and layer on top of this the new initiatives in the context of a broader business strategy.

In assessing the impact of these changes funders are likely to ask themselves the following questions:

- Does this borrower’s strategy make sense to me?
- What does their core business look like and can this service their debt if all else fails?
Are some or all of the traditional protections still in place in one form or another?
Are there credit positives from increased flexibility?
Do the assumptions being made look sensible?
What evidence is there to support the plans and assumptions?
What confidence do I have in the management and board to deliver against these plans?
Are these strategies flexible enough to adapt to changing circumstances and are management and the board willing and capable of adapting before issues arise and the TSA/HCA comes to the rescue?

It is important that management and boards ask themselves whether their business is fundamentally changing and if the answer is ‘yes’ perhaps assuming slightly higher funding costs would be prudent, even if this takes time to filter through into facility pricing.

In moving onto a more commercial footing the sector is perhaps drawing closer to other essential service assets funded through private finance, such as utilities. Utilities enjoy relatively low-cost funding (bond spreads are between 1 and 1.5 per cent for 30-year borrowing at the operating company), with relatively high debt to regulated asset value (most stand at 65-75 per cent with covenants at the 80-90 per cent level). Like social housing they exhibit stable and predictable cashflows and are well-regulated. Unlike social housing however they often operate monopolies and the focus of regulation is consumer protection from equity. While there are some important differences between social housing and utility sectors, this does represent a reasonable data point on the spectrum that extends to private property companies at the other extreme. The comparison will remain a reasonable one to make the more features the sectors continue to share.

All this suggests that associations that want to proceed further down a commercial path do not perhaps have too much to fear in terms of excessive borrowing costs in relation to the returns expected from the additional risks. Increased flexibility and reduced central government support will mean the role of management and boards will become increasingly important to the successful delivery of this essential service. As long as the fundamentals remain strong and the risks are actively managed rather than ignored, RBC will continue to be an active supporter of the sector.
Disclaimer
The information contained in this presentation obtained from sources other than RBC Capital Markets (‘RBC CM’) has been compiled by RBC CM from sources believed to be reliable, but no representation or warranty, express or implied, is made by Royal Bank of Canada, RBC CM, its affiliates or any other person as to its accuracy, completeness or correctness. RBC Capital Markets is a business name used by units of Royal Bank of Canada including RBC Dominion Securities Inc., RBC Capital Markets Corporation, Royal Bank of Canada Europe Limited and Royal Bank of Canada – Sydney Branch. This presentation is being provided to you based on our reasonable belief that you are a sophisticated institutional investor that is capable of assessing the merits and risks of the transactions and financial matters discussed herein. All opinions and estimates contained in this presentation constitute RBC CM’s judgement as of the date of this presentation, are subject to change without notice and are provided in good faith but without legal responsibility. This presentation is not an offer to sell or a solicitation of an offer to buy any securities. This presentation is not, and under no circumstances should be construed as, a solicitation to act as securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. To the full extent permitted by law neither RBC CM nor any of its affiliates, nor any other person, accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein. No matter contained in this document may be reproduced or copied by any means without the prior consent of RBC CM. The entities comprising RBC Capital Markets are wholly owned subsidiaries of Royal Bank of Canada and are members of the RBC Financial Group.

© RBC Capital Markets Corporation 2010 – Member SIPC
© RBC Dominion Securities Inc. 2010 – Member CIPF
© Royal Bank of Canada Europe Limited 2010 – Regulated and authorised by FSA
© Royal Bank of Canada 2010 – Regulated and authorised by FSA
All rights reserved
New dawn = new necessity
David Cowans, Chief Executive, Places for People

So where have we got to on housing one year on from the historic formation of a Conservative-Liberal coalition government?

- the banking system has stabilised
- the government deficit is being dealt with by the measures put in place in the Comprehensive Spending Review
- planning and housing are both underpinned by focusing on a ‘presumption for sustainable development’ in a localism context
- residential property companies are beginning to deliver profits again.

On the face of it, you would be forgiven for thinking that, whilst some of the solutions are different, the residential property sector can now move forward again in the same manner that it has always done after previous recessions. As the French saying goes: ‘Plus ça change plus c’est la même chose’ (the more things change, the more things stay the same).

However, when a closer look is taken at the future influences on the residential property sector over the next five to ten years you begin to realise that things are not all going to be the same.

First, demand for housing remains insatiable but the fiscal measures that the government has put in place and inflationary influences on living costs will make homeownership and moving up the housing ladder unaffordable for all but those on the top 50 per cent of incomes or those with 25 per cent or more existing equity (about 8m – 10m households). For the remaining households, renting is becoming not only an affordable but also a more attractive lifestyle option.

Secondly, the government has recognised that the construction of new housing is a key driver of economic growth and has put its weight behind enabling that to happen through a ‘presumption in favour of sustainable development’ (which in theory could take some of the heat out of future house-price inflation). However, government is not going to be able to put the levels of financial subsidy into the building of new affordable homes that it has done historically.

Thirdly, interest rates should continue to remain at low levels for the next year or two which should help consumers. However, various changes to the financial regulatory
framework (Basle III, Insolvency II, Turner report, etc.) and the (over) exposure of the big banks to the property market means that the future commercial and mortgage lending capacity into the sector will remain muted. Analysis of the level of mortgage stock growth over the last 30 years showed that the greatest growth occurred in the years where there was a rapid expansion of wholesale funding (between 1981-1988 and 2001-2007), the scale of which is unlikely to happen again due to future regulation.

Finally, against this financial background the industry is going to struggle to get anything near to the level of 200,000 new houses per annum which, when judged against many commentators’ housing demand projections, is still likely to fall significantly below what is required.

So in summary, there is a ‘new dawn’ in terms of the need to increase the supply of new housing vis-à-vis people’s inability to fulfil their homeownership aspirations that requires a ‘new necessity’ in terms of how the residential property sector is funded. Herein lies the problem for the sector – the heart is willing but the body needs some new fuel (finance) to help propel it.

The government’s emerging funding strategy for new housing is to reduce the capital subsidy and effectively rely on income subsidy together with the use of the latent capacity in the balance sheets of registered providers (RPs). The first manifestation of this has been the ‘Affordable Rent’ concept which relies on generating income from social to 80 per cent market rent conversions to fund the borrowing required to build new low-cost housing. Aside from the fact that gearing limitations for RPs will provide a glass ceiling on the amount of new low-cost housing that can be generated from the ‘Affordable Rent’ model, the principles underpinning this concept will inevitably need to be applied in other ways to create the financial capacity to build more homes.

A report to the Homes and Communities Agency’s (HCA) Housing Finance Group in 2011 by the Cambridge Centre for Housing & Planning Research concluded that there appears to be a good appetite for institutional investment into the residential property sector, with debt financing increasingly being supplemented by bond and equity finance over time. The study identified a number of different options for equity investment into residential housing including what it calls ‘Grant Capitalisation’, where government changes the designation of the historic Social Housing Grant that sits on the balance sheets of RPs in order to create the headroom to release equity into the institutional markets which would be funded through the ‘Affordable Rent’ scheme.

If half of the current Social Housing Grant sitting on RP balance sheets was converted into equity, then we calculate that the sector could deliver 115,000 more new low-cost
homes without the requirement for additional housing grant over and above the trend of the current HCA grant-funded programme. This approach has the merit that it does not overly stress gearing calculations and provides a counter balance to the over-reliance of the sector on debt funding which is likely to be constrained in the future. Indeed, this proposal has generated interest from a significant number of institutional investors.

In addition, the Stamp Duty Land Tax and Real Estate Investment Trusts (REITs) measures announced by the Treasury in the March 2011 Budget have some significance for the future funding of new housing. In particular, the REITs measures may enable RPs to structure funding vehicles that could be attractive for institutional investors that want a long-term (20 or 30 years) index-linked income stream to match with other investments in their portfolios.

In summary, by structuring itself to accept equity funding by institutional investors there could be ways for the residential property sector to attract additional finance capable of filling some of the gaps in the supply of new housing. This would undoubtedly also help complement and support the housebuilders who produce around 80 per cent of all new housing supply.
Section 5
Conclusions and next steps
As outlined at the beginning, this compendium is seen as something of a ‘can opener’ in terms of instigating a much-needed debate about change and transformation in the sector, what it may look like and how it might best be managed.

One thing should have become apparent, namely that there is a clear business imperative for change. Organisations that will be thriving in the future are those which take a pro-active and long-term strategic approach to change, rather than change determined by the issues and challenges of the day. ‘We have to forge our own destiny before others do it for us’ has been one of the persistent messages from the roundtable discussions. The watchword here is self-determination and control.

Change and transformation won’t happen overnight. Change needs to be at the right pace and aligned with the appropriate business processes, structures and funding streams. But perhaps most importantly it needs people who not only have the vision and drive for transformational change, but are able to galvanize their fellow colleagues’ buy-in and support for change to become a reality. The common denominator is around leadership. This has been a strong and consistent message throughout this project. What change and transformation will look like in practice and how they are to be achieved will then differ between organisations.

So what does that leave us with? We now want to harness the huge appetite to make transformational change a reality in the sector. As well as wanting to build capacity and confidence to respond to the clear business imperative for change, participants wanted to help raise the sector’s profile with government and beyond by demonstrating the sector’s invaluable contribution to wider public policy concerns, such as the creation of socially cohesive and sustainable communities, educational performance, health improvements and economic opportunities.

This will be the focus of the next phase, following the publication of this compendium. It is set to encourage a sector-led focus on the imperatives to change for individuals, organisations, and for the sector as a whole; to raise awareness of transformational change which is already underway; and to ensure that the appetite, capacity and drive to change is widespread. We hope that this will lead to a strong sector which is well-equipped for the future and is seen as positive and proactive by those who have an interest in our work and its outcomes.
You might or might not agree with (all) the views and sentiments expressed in this publication, but hopefully it has provided you with and/or sparked-off some new thoughts and ideas. We hope you will join us on this exciting journey in ensuring the sector is fit for purpose in the future.