

# **‘STICK, TWIST OR BUST’**

**THE IMPACT OF FALLING GRANT RATES AND THE  
EFFICIENCY AGENDA ON THE ABILITY OF SMALL  
AND MEDIUM-SIZED HOUSING ASSOCIATIONS IN  
ENGLAND TO DELIVER NEW SOCIAL HOUSING**

**A RESEARCH STUDY FOR THE NORTHERN IRELAND  
HOUSING EXECUTIVE**

**Final Report**

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North Harbour Consulting

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## **‘STICK, TWIST OR BUST’**

### **The impact of falling grant rates and the efficiency agenda on the ability of small to medium-sized housing associations in England to develop new social housing: a research study for the Northern Ireland Housing Executive**

#### **I. INTRODUCTION**

##### **About the study**

- I.1.** For many years, new social housing in Northern Ireland has largely been funded through public investment. As recently as 2007/2008, grant rates for housing association development schemes were still around 80% on average for general needs housing, with higher grant rates for special needs housing and some other forms of development. There had been experimentation with privately financed and cross-subsidy schemes by a few of the larger housing associations, but generally the sector was roughly where the English housing association sector was in the run-up to the 1988 Housing Act which first introduced private finance into housing association development programmes on any significant scale.
- I.2.** The 2008 financial settlement for the social housing development programme 2008/2009 in Northern Ireland signalled a reduction in the proportion of public subsidy helping to fund new social housing, yet the targets for new homes remained ambitious. The clear implication was that the housing association sector would have to migrate very rapidly to a regime in which lower grant rates, more private finance, cross-subsidy and other forms of efficiency and innovation were driving the programme.
- I.3.** English housing associations had already experienced these changes, and it was relevant to ask what lessons could be learned in the Northern Ireland context from English experience. North Harbour Consulting was commissioned by the Northern Ireland Housing Executive in January 2008 to carry out a review of the way in which English housing associations had adapted to a similar reduction in the level of grant funding housing association development programmes following the 1988 Housing Act. This was essentially a desk-top review of policy documents, published data and previous research studies, augmented by interviews with a small number of senior Housing Corporation and housing association managers. The study was completed in May 2008. In our report we described the way in which the English funding system has evolved over the twenty years since 1988; we identified the key milestones in this process and the ‘winners’ and ‘losers’; and we draw conclusions about the implications of the English experience for a rapid transition to a mixed funding regime in Northern Ireland. The key findings and conclusions are summarised in the next section of the Introduction.
- I.4.** Following on from this initial research, the Housing Executive commissioned a second, related study in July 2008. This research set out to explore the consequential effects of changes in funding for and management of the national social housing development programme on English housing associations – and in particular small to medium-sized English associations that are comparable to the

generality of housing associations working in Northern Ireland - in order to establish how they have responded to changes in the development funding regime, the impact on their organisations, and the strategies they have adopted for growth or survival. This study was based on a national survey of small and medium-sized housing associations working in different parts of England. The results have previously been reported in three working papers that have been submitted to the Housing Executive for discussion. This report consolidates the working papers, and offers a commentary on the significance of the findings for the housing association sector in Northern Ireland.

## **Evolution of the mixed funding regime in England: Summary<sup>1</sup>**

- 1.5. The introduction of a funding regime for new social housing developments carried out by housing associations in which public funding was mixed with private borrowing by housing association brought about a cultural shift in the way that they were perceived and in the way some of them behaved. Prior to 1988, housing associations were seen as independent voluntary organisations that were complementing the work of local authority housing and social care departments. After the 1988 Housing Act, the larger associations in particular began to act and be perceived as more like private sector organisations, run like businesses but with a social purpose.
- 1.6. The introduction of the new funding regime was fairly gradual. In the first year 1988/1989, housing associations were merely asked to bring forward schemes that they felt could be developed at almost any level of private finance. Over the next five years, 1989 – 1994, the grant rate reduced from 90% on average to 50% across the board. This level of headline funding persisted for the following five years, during which time the Housing Corporation began to bring in measures to increase competition between housing associations in order to bring down the headline grant rate even further. By 2000, the Housing Corporation had abandoned the publication of a grant rate altogether, and development funding was being allocated to those associations that offered to build the largest number of new homes for the least amount of grant. A substantial number of housing associations began to be squeezed out of development activity altogether.
- 1.7. Introduction of the new regime in more or less the form that it now takes was therefore staged over twelve years. This allowed time for housing associations that were active developers to learn how to operate the new regime; for the Housing Corporation to develop administrative procedures to support the new regime; and for private lending institutions to explore this new market and decide whether or not it was a viable long term investment.

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<sup>1</sup> This section of the report is an edited version of the executive summary from Palmer J A D (unpublished 2008), [Recent developments in financing new social housing in England: the impact of levering private finance into the funding system](#), North Harbour Consulting for the Northern Ireland Housing Executive

- 1.8. Once competition for grant between housing associations became established, the way in which the programme was delivered became increasingly important. The Housing Corporation came to believe that not all associations bidding for grant were actually capable of delivering their programmes on time and within budget; and that there was insufficient expertise available to staff more than 400 different development departments.
- 1.9. In 2004, the Housing Corporation introduced an ‘investment partnering pilot programme’, in which 80% of the £33.3 billion programme was allocated to just 70 leading developers, who would deliver large volume building programmes averaging almost 800 new homes each over the following two years. The remaining 20% of the programme was allocated to around 200 associations, each of whom would be funded to develop small programmes. Research commissioned by the Housing Corporation found that the new approach was 9% cheaper to run, and that there had been an efficiency gain of 28 additional new homes for every £10 million of grant. However, other research also commissioned by the Housing Corporation established that the most efficient developers were not on the whole the most efficient or effective managers of housing stock or providers of tenant-sensitive services.<sup>2</sup>
- 1.10. Almost by definition, the Housing Corporation’s investment partners with the most capital-intensive development programmes were to be found among the largest housing associations. Small and medium-sized housing associations either linked their developments into these larger programmes through membership of a development consortium, merged with a larger association by becoming part of a constitutional group structure, or built few if any new homes. How and why associations made these choices was an important area for enquiry in the follow-up research.

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<sup>2</sup> Full references to the sources for these findings are to be found in the study report Palmer J (2008), [op. cit.](#)

## 2. THE IMPACT OF FALLING GRANT RATES ON SMALL TO MEDIUM-SIZED HOUSING ASSOCIATIONS IN ENGLAND: EXECUTIVE SUMMARY

### The study population

2.1. The Housing Corporation Registry of Social Landlords<sup>3</sup> identified 1,467 out of a total number of c.1,900 RSLs as ‘small and medium-sized housing associations’. Following discussions with the Housing Executive, 1,114 very small associations with fewer than 250 homes in management were excluded from this study on the grounds that few of them would have had recent experience of developing new homes. This left a potential survey population of 353 associations. 79 associations took part in the survey – a response rate of 36.8%<sup>4</sup>. 61% provide general needs housing for rent; 15% provide special needs housing for rent; and 17.5% provide a mix of general and special needs housing for rent. There was an even geographical distribution of respondents by Housing Corporation region and by different types of area (inner city to rural). This is reassuring as the conditions for development vary widely in different parts of the country, and responses to the survey are likely to be fairly representative of England as a whole. The appendix gives a detailed account of our methodology and a profile of the survey population and associations that responded to the survey.

### Who is developing new social housing

- 2.2. 74% of the housing associations that took part in the survey said that they are currently developing some new social housing, but one quarter of the general needs providers and one third of the special needs providers said they were not developing new housing at present.
- 2.3. Associations are most likely to be developers if they have an existing housing stock of more than 500 homes; if their housing stock is valued at more than £50 million; and if they are general needs providers.
- 2.4. Small associations with fewer than 500 homes in management with an asset value of less than £25 million, and special needs housing associations, and are the least likely to be developers.

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<sup>3</sup> We gratefully acknowledge the help provided by the Housing Corporation Registry of Social Landlords in Planning this research, and in particular in providing information on the number of homes in management and contact details that allowed us to identify an appropriate survey population.

<sup>4</sup> Out of 353 registered housing associations with which email contact was made or attempted, we received 80 responses (22.7% of the survey population). Our initial count suggested that associations that were part of a constitutional group structure had a higher non-response rate than those that were independent. On further analysis, however, we found that where there was a response from an association within a group, other groups members in our survey population did not respond. In effect, the questionnaire was completed once on behalf of the group’s members as a whole. Within the total of 80 responses were responses from 36 associations who said they were part of a group structure (45.0%). Our online research showed that the groups that responded contain more than 100 RSLs and unregistered subsidiaries of which 75 RSLs had fewer than 5,000 homes in management and were included in the Housing Corporation’s list of small and medium-sized housing associations. When the fact that some responses were made on behalf of more than one association is taken into account, the effective response rate improves to 36.8%.

- 2.5. Associations working in London and those that are working in more than one Housing Corporation region are almost twice as likely not to be developing new housing as those that work in other regions. Cost is likely to be a significant factor working against London-based associations; while administrative complexity and geographical spread may be issues for small to medium-sized associations working in more than one region.
- 2.6. Most associations responding to the survey had relatively small development programmes, illustrated by the fact that half of all respondents only account for 13% of the development programme being planned for the 2009/2010 financial year, while the top ten respondents account for two thirds of the programme. There is a similar pattern in the following years, with the top quartile accounting for around two thirds of the new homes that are planned in each year. This reflects the post-2004 Housing Corporation policy of channelling most of its approved development finance through around 70 large development partners.

### **Why some housing associations are not currently developing new homes**

- 2.7. There are three factors that reinforce each other in making it difficult for some general needs housing associations to engage with the development of new homes: their size; their capacity to manage a development programme; and their perceived capacity to manage a development programme as seen from a Housing Corporation perspective.
- 2.8. For special needs associations, the same factors may be at work but in addition the fact that development of new supported housing is less financially viable than the development of general needs housing, that their services are more staff-intensive than general needs housing, and that they are critically dependent on contractual revenue funding streams to underpin their running costs may make the additional financial risks involved with having a development programme more than they are willing to take on.
- 2.9. Other reasons given for not having a current development programme were:
- 2.9.1. the level of recent grant rates or other lack of finance;
  - 2.9.2. lack of development opportunities;
  - 2.9.3. the fact that responsibility for management of the development programme had been transferred away from the association to group level; and
  - 2.9.4. decisions at some time in the past to become a 'management only' housing association, and not to take part in the development of new social housing at all.

## Types of development activity

- 2.10. The majority of associations taking part in the survey were developing general needs housing for rent (91%). Just over one third were developing special needs housing (37.8%) – the majority of these were also developing general needs housing; half were providing low cost home ownership; and 22% were building housing for outright sale or market renting as a means of generating development profits to subsidise their social housing programmes in line with Housing Corporation policy.

## Sources of funding

- 2.11. A majority of respondents (66%) rely mainly on Social Housing Grant and private finance as the basis for funding their programmes. Other significant sources included use of the association's reserves (62% of respondents); free land provided by developers under Section 106 planning agreements (44% of respondents); and cross subsidy from other schemes including build for sale (33% of respondents).

## Partnership working

- 2.12. Before launching the online survey, we identified 155 associations through online research (44% of the associations in the survey population) that were members of a constitutionally-based group structure<sup>5</sup>. The constitutional groups from which a response was received contained more than 100 registered housing associations or other types of subsidiary. Of these, 75 housing associations were identified with fewer than 5,000 homes in management. The high proportion of associations that were constitutionally linked with at least one other housing association is an indication of how far the restructuring of the sector has proceeded since 1988. Restructuring has accelerated since 2004 when the Housing Corporation introduced its development partnering programme.
- 2.13. 60% of the associations that took part in the survey are members of either a development consortium or a group structure. The 25% of associations with the largest programmes (accounting for 2/3 of the new development identified in the survey) are in almost every case members of a development consortium or a group structure.

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<sup>5</sup> We differentiate in the body of this report between associations that are part of a constitutionally-based group structure and a contractually-based development consortium.

**Group structures** are typically formed either when two or more housing associations combine under a specially created parent body to form a group, or when a small association merges with a larger one but retains its original identity. In a number of cases, two or more group structures have subsequently merged into a larger agglomeration (for example, A2 Dominion was formed from the merger of the A2 housing group and the Dominion housing group); and in other cases, the constituent parts of a group structure have been amalgamated into a single housing association (for example, Riverside Housing has amalgamated eight housing associations that were part of its group structure at the time of our survey into one association).

**Development consortia** are formed when two or more associations enter into some form of joint development agreement in order to generate a programme of sufficient size to be considered for Development Partner status by the Housing Corporation / Homes and Communities Agency. These are contractual arrangements not constitutional arrangements.

- 2.14. However, in only one case was an association the lead member of its development consortium. The implications of this are that where small to medium-sized associations are part of a group structure or a development consortium, they are not likely to be driving the programme.
- 2.15. The survey results also show that 27% of constitutional group members said they are not currently developing any new homes at all, compared with fewer than 20% of associations that are not currently part of a constitutional group. Other responses to the survey show that development activities are carried out centrally by the parent body within group structures. Some subsidiaries may say they are not developing even though they will receive new stock from group-wide development programmes.
- 2.16. Associations were asked to explain why they had adopted a partnership approach to development. Of those that were members of a consortium or group:
- 2.16.1. 24% said it was because they were too small to sustain a development programme on their own;
  - 2.16.2. 24% said that it was in order to access Housing Corporation funding, which they would not have been able to obtain if they had remained independent;
  - 2.16.3. 19% said that they believed a partnership approach would lead to greater efficiency; and
  - 2.16.4. one association said that they were involved in a partnership as a basis for risk sharing – an important consideration for a small association.
- 2.17. A small number of associations (11%) said that they had not joined a development consortium or constitutional grouping because they valued their independence.
- 2.18. On the basis of these findings it is apparent that access to a Housing Corporation development programme and therefore the opportunity to develop new homes and grow was the primary justification for group membership or other forms of partnership working.

### **Sources of development land**

- 2.19. The most frequent regular source of land supply identified by associations was land purchased through developers under S106 planning agreements (40.5%). Land obtained from developers as part of a design and build contract accounted for 24.3% of responses; and discounted land obtained from a public authority in return for a benefit such as nomination rights accounted for a further 24.3%. Purchase on the open market is sometimes used by almost half of respondent associations (45.9%), but was not a regular source of supply.

## Approaches to contracting

- 2.20. The sources of land for new development were closely linked to the most common approaches to contracting with developers and builders. The most common practices were based on partnering arrangements, commonly in connection with S106 planning agreements (73% of respondents) and JCT design and build contracts (56.8%). Open tenders accounted for 62.2% of responses; and negotiated tenders were also used on occasions by 40.5% of associations.
- 2.21. Asked why they adopted these approaches:
- 2.21.1. 22% of respondents cited value for money (21.6%);
  - 2.21.2. 16% said the approach was determined by their development consortium or housing association group;
  - 2.21.3. 8% said that reliability of results was the driver;
  - 2.21.4. 8% said they had adopted their approach to comply with EU procurement rules; and
  - 2.21.5. 35% gave what was essentially a pragmatic answer in that they took whatever opportunities were available to them.

## Planning and delivery

- 2.22. Associations varied considerably in their approach to planning their development programmes. Almost half of them (42%) only have a one or two year planning cycle, and without exception these are associations with small programmes. Small development programmes are likely to be set up as and when opportunities arise, and this results in short term planning. A similar proportion are planning over 4 or 5 year cycles (42%). These tend to be associations with larger development programmes. The evidence is clear. Small to medium-sized associations that have only restricted access to development opportunities (i.e. the majority of those that responded to the survey) will tend to have very small programmes that are planned over the short term unless they are a member of a larger group structure or consortium. This may well limit the quality of their financial planning and risk assessment, as well as their ability to withstand fluctuations in the development and financial markets.

## The impact of mixed funding on small and medium-sized housing associations

- 2.23. Associations were asked to give their assessment of the impact of the mixed funding regime and the government's associated 'efficiency agenda' on their particular activities. Responses were varied and to some extent reflected the differences between smaller associations that had no ongoing development activity, those that were still trying to manage their own development programmes, and associations that were involved in larger programmes often as part of development clubs or constitutional group structures.
- 2.24. Looking at the impact on development, larger associations said that the introduction of mixed funding had resulted in:
- 2.24.1. bigger development programmes;

- 2.24.2. increased efficiency in development, with overheads spread over more homes;
  - 2.24.3. a focus on design and build;
  - 2.24.4. more scrutiny of products and costs;
  - 2.24.5. more certainty for developers' development pipelines.
- 2.25. Smaller developers said the change had resulted in:
- 2.25.1. a narrower selection of potential projects;
  - 2.25.2. limited opportunities to buy land locally; and
  - 2.25.3. the need for a more conservative approach
- 2.26. Looking at the positive impact that the change has had on finance, associations said that:
- 2.26.1. there is tighter financial control and better development appraisal as a result of the mixed finding regime;
  - 2.26.2. better access to more development finance, but on the basis of more borrowing;
  - 2.26.3. costs have been driven down and are more competitive than before;
  - 2.26.4. there is greater awareness of the commercial basis for investment; and
  - 2.26.5. tax planning is now part of decision-making.
- 2.27. Compared with the comments about the impact of the mixed funding regime on development activity, however, the comments about its financial consequences are more contradictory. There is a consensus that financial risks have increased and that there is less room for error. There is a suggestion that increased building costs have absorbed efficiency savings; that larger-scale development has been bought at the cost of more borrowing; and that with more borrowing goes bigger interest payments and higher gearing between borrowing and the value of property equity.
- 2.28. Associations have become more exposed to market cycles. The crisis of bank lending brought about by the collapse of the secondary mortgage market for lenders has triggered a more conservative approach to housing association lending on the part of a number of financial institutions. Financial instruments negotiated when market conditions were favourable and which have reached their repayment date are, in some cases, now being replaced by demands for much higher interest rates. This is having an adverse effect on the cash flow position of some associations.
- 2.29. One association said it had used up its reserves in pursuing a development programme, and was no longer in a position to develop or respond to unexpected changes in its revenue or capital funding.

- 2.30. Finally, associations were invited to give a more extended comment on their overall impressions of how well or how badly the impact of reducing grant rates and the efficiency agenda had affected their development programmes and their overall viability. We reproduce a selected number of comments below. A more complete list of comments is given in the body of the report.

Figure 1: General comments on the impact of the mixed funding and efficiency regime

- Reducing grant rates are a thing of the past. Grant rates need and will have to go up in the immediate future in order to sustain development. I'm not convinced that the efficiency agenda has or will deliver the goods.
- Housing associations without reserves are being frozen out of the market unless they are willing to absorb costs whilst striving to meet the local needs they have to address. The Housing Corporation seems to have adopted the view that 'big is beautiful' and ignored the diversity of the sector which is what makes it successful in meeting local and diverse needs.
- Reducing grant rates disadvantage small and specialist RSLs disproportionately, reducing their development capacity. If this continues unchecked it may result in a less diverse sector and the permanent loss of specialist expertise and choice for tenants.
- Pushing grant rates down on the basis that cross subsidy from outright sale and Low Cost Home Ownership is available makes RSLs vulnerable to market cycles. Some RSLs are very exposed in terms of reliance on stair-casing on shared ownership schemes and outright sale profits to generate surpluses, so production comes to a halt if consumer demand slows down, and developers stop developing.
- It has been increasingly more difficult to compete with developers and large RSLs in a buoyant property market. However, due to the current 'crunch' the Housing Corporation has had to be more flexible on the level of grant per unit and we have seen a reduction in the demand for and the value of development land. Larger RSLs seem more exposed to the risk of unsold shared ownership properties and are more reluctant to follow up new opportunities.

Source: quotes from survey responses

### **3. THE IMPACT OF FALLING GRANT RATES ON SMALL TO MEDIUM-SIZED HOUSING ASSOCIATIONS IN ENGLAND: AUTHOR'S COMMENTARY**

- 3.1. The title of this research report derives from the card game 'Pontoon' in which players are dealt two cards, each of which has a value of between 1 and 11. The aim is to reach a score of 21. Once they have been dealt a hand, players can decide to 'stick' which means stay as they are, or 'twist' which means they can be dealt further cards one at a time. However, those that twist run the risk of going 'bust' if the combined score of their cards is 22 or more. Judgement is needed as well as an understanding of the previous run of the cards if players are to win whilst minimising the risk of going bust.
- 3.2. Pontoon can be seen as a simplified analogue for the role of English housing associations in developing new social housing since the introduction of a mixed funding regime in 1998. The mixed funding regime combines an element of public finance with the requirement to borrow private finance or to find other sources of subsidy to make up the difference between the cost of a development programme and the amount of public money being invested in it. This brings with it opportunities for significant growth but also heightened risk compared with pre-1998 funding in which up to 100% of the cost of development was publicly funded. Since the introduction of the 1998 Act financial regime, some associations have responded by playing safe, 'sticking' where they are, developing little or no new social housing except where conditions are particularly favourable and risks are low. Many associations, however, have opted to 'twist' and have continued to develop. Some of them have been very successful and have grown large in the process. A few have gone 'bust' if their operational, financial and risk management has not been good enough, or if (as recently) rapidly changing conditions in the financial and property markets have caught them out. In some cases, associations that have got into difficulties have needed to be bailed out by finance from other associations, or from the Housing Corporation/Homes and Communities Agency. This has sometimes meant that they have been forced into a merger with one of the very large 'super associations'.

#### **Interpreting the research results for Northern Ireland**

- 3.3. These findings need to be interpreted for a very different situation in Northern Ireland. Firstly, the structure of the housing association sector in Northern Ireland is very different from that found in England. At the time this research was commissioned in mid-2008, there were 36 registered housing associations in Northern Ireland.<sup>6</sup> None of them would have been classified as 'large' in England. Table I compares the structure of the housing association sector in Northern Ireland with that found in England.

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<sup>6</sup> Housing Executive data are correct up to late 2007.

Table 1: The structure of the housing association sector in Northern Ireland compared with the structure of the sector in England

	Northern Ireland		England	
	Number	%	Number	%
Large housing associations with 5,000+ homes in management	0	0%	450	23%
Medium-sized housing associations with 1,000 to 4,999 homes in management	6	17%	190	10%
Small associations with 500 to 999 homes in management	5	14%	75	4%
Very small associations with fewer than 499 homes in management	25	69%	1,202	63%
N =	36		1,917	
Data on housing associations in Northern Ireland provided by the Housing Executive at December 2007; data on housing associations in England provided by the Housing Corporation and derived from the Register of Social Landlords at 31 March 2007.				

- 3.4. Although England has a significant number of large housing associations, the proportion of very small associations in England is broadly comparable with the proportion found in Northern Ireland. In England, few of these very small associations have carried out any new development in recent years.
- 3.5. 24 housing associations in Northern Ireland (67%) had some kind of development programme in 2007/2008 at the time of our original research. 12 had development programmes of 50 new homes or more each year. Some very small housing associations were only providing between 1 - 10 new dwellings each year and not necessarily every year. But in England, under the post-1988 mixed funding regime, these very small associations would be most unlikely to receive any public funding for new development.
- 3.6. Compared with England, development programmes in Northern Ireland generally are small. This raises questions in the light of the English research about whether many Northern Ireland housing associations have large enough programmes to make borrowing private finance a viable proposition, and few could deliver economies of scale in their development activities. Having a small stock of housing and a limited rental income stream also raises questions about how many of the region's housing associations would have the necessary equity or cash flow to support borrowing on any scale.

- 3.7. Our expectation as set out in our first research report was that as the new financial regime takes hold in Northern Ireland, pooling smaller developments into larger ones via development consortia and possibly even more robust forms of restructuring of the sector will probably be needed in the short to medium term. A far greater number of partnerships between housing associations and private developers, and other forms of quasi-commercial development might also have to be tried in Northern Ireland if the English model is to be followed. Having said that, the current crisis in the banking sector may lead to a rethink on the viability of a mixed development funding regime in Northern Ireland based on 50% or lower grant rates as it is currently doing in England.
- 3.8. The two pieces of research conducted for the Housing Executive show that the post-1988 mixed funding regime in England has resulted in a substantial increase in the volume of housing that has been built compared with the earlier public funding regime. The development programme overall, and the development departments in the larger housing associations, housing association groups and development consortium lead associations have become more efficient in terms of the number of new homes being built for a given quantum of public finance. Housing associations that are involved in development have become more business-like, with better planning, treasury management and risk assessment systems in place. It has also been suggested that the quality of governance in the leading associations has been improved because Boards have had to become more knowledgeable about development, borrowing and risk management.
- 3.9. However, the results of the research also suggest that there have been some disadvantageous consequences arising from the 1988-regime, particularly as it has been developed during the period since 2004 when the Housing Corporation's development partnering scheme was introduced. As we concluded in our previous report:
- “The ability to sustain a long term, privately financed development programme depends on a number of factors. Good governance and management, the availability of development and treasury management expertise, good business planning, and balance-sheet strength seen from the perspective of both assets and cash reserves, are all critical. In moving towards its investment partnering approach, the Housing Corporation has selected partners that score well under all these headings. However, recent research has established that the most effective developers are not necessarily providing the best services to tenants”<sup>7</sup>.*

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<sup>7</sup> Palmer J (2008), [Recent developments in financing new social housing in England: the impact of leveraging private finance into the funding system](#), North Harbour Consulting for the Northern Ireland Housing Executive, page 6

- 3.10. The sector's reputation with government has been increasingly linked to its success in achieving housing targets. But housing associations exist not only to build new homes; they are required to manage them efficiently and provide good quality, responsive services to their tenants and the communities they serve. The research we have carried out for this study suggests that up to 75% of all English housing associations have had little or no access to development funding at all in recent years. Very many of these associations provide good quality services to their tenants and communities and have either chosen to 'stick' where they are, or have been forced to adopt this position because of the way in which development finance has been managed nationally and regionally.
- 3.11. The development regime that has been in place has required associations that have ambitions to grow through development of new homes – those that wish to 'twist', in other words - to combine with others to achieve their aims, either through contractual membership of a development consortium or through amalgamation with other, usually much larger housing associations, as part of a constitutionally-based group structure. In the process, a number of dynamic smaller associations have lost both their identity and their community focus.
- 3.12. Housing associations are, by definition, not-for-profit organisations and many of them are charities. Yet in order to sustain their ability to develop in the face of reducing grant rates, associations have been encouraged by the Housing Corporation to become involved in overtly commercial forms of development as a means of cross-subsidising social rented housing programmes. Until recently, charity law would have made this type of cross-over between charitable and commercial activity impossible. The evidence is that, like the private sector, a number of housing associations have found it difficult to sell properties since the latter part of 2007.
- 3.13. Difficulty selling property is having an impact on development financing and cash flow planning, and at the extremes has implications for financial viability and organisational solvency. Associations in this position have had to refinance their commercial property into their social rented housing programmes in order to pay off borrowing and avoid going 'bust', but this is dependent on the availability of additional social housing grant from the Housing Corporation/Homes and Communities Agency. The new Tenant Services Authority is known to be monitoring the financial situation in a number of associations.
- 3.14. It is open to question whether very many of Northern Ireland's smaller housing associations any more than those found in England would have the necessary combined strengths in governance, financial and business planning, and operational management to engage in market-led activities of the kind that has been promoted for housing association developers in England. The safest course of action may be for them to 'stick' because there are significant financial risks if they decide to 'twist' with implications for their viability and solvency.

- 3.15. The mixed finding regime post-2004 has rewarded success in achieving building targets but has not always rewarded success in providing good quality, efficient tenant and community services. The collapse of the US and English banking sector and the problems this has created for large-scale housing association developers and their commercial partners is now calling into question the whole basis on which the development programme has been funded over the past five years – and possibly longer. Housing association managers who responded to our survey are suggesting that, notwithstanding the benefits that have accrued from the mixed funding regime since 1988, there need to be significant changes in the way housing association development programmes are funded and managed in future – at least in respect of higher grant rates, a lower proportion of private finance, and a more sceptical adoption of some of the more overtly commercial practices.
- 3.16. What is clear from these comments is that the ongoing economic downturn that started in the later months of 2007, coupled with changing attitudes on the part of lending institutions, have been strong influences on how positive senior housing association managers responding to the survey feel about the financing and development regime promoted by the Housing Corporation prior to its dissolution in November 2008. The concerns are known to be shared by the Tenant Services Authority<sup>88</sup>. If that is the case, then that would appear to be welcomed by the small and medium-sized housing associations that have responded to this survey.

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<sup>88</sup> Peter Marsh, Chief Executive, Tenant Services Authority, expressed concerns about several aspects of the Housing Corporation funding and regulatory regime at a seminar for senior housing association managers and board members organised by Blake Laphorn Tarlo Lyons, solicitors, Southampton, March 2009

## 4. THE IMPACT OF FALLING GRANT RATES ON SMALL TO MEDIUM-SIZED HOUSING ASSOCIATIONS IN ENGLAND: THE REPORT

### Who is developing new social housing?

- 4.1. 54 housing associations said that they were currently developing new social housing (73.9% of all responses).
- 4.2. One quarter of the general needs providers and half of the special needs providers said they were not developing housing at present. Small general needs associations with fewer than 500 dwellings in management are the most likely to be non-developers (Tables 2, 3 and 4 below). Around one third of special needs housing providers across the size ranges are non-developers.
- 4.3. The responses suggest that for general needs associations, this is likely to be a product of three factors that tend to reinforce each other:
  - 4.3.1. their size in terms of the number of dwellings they have in management, the asset value and low rent base of these properties will work against their ability to borrow private finance on competitive terms compared with larger associations;
  - 4.3.2. their capacity to manage a development programme or participate in a development consortium will limit their opportunities unless they are part of a wider group structure;
  - 4.3.3. their perceived capacity to manage and efficient programme as seen from a Housing Corporation perspective will mean that they are not offered funding for even small-scale programmes.
- 4.4. For special needs associations, some of the same factors may be at work, but in addition the fact that their services are more staff-intensive than general needs housing, and that they are critically dependent on contractual revenue funding streams may make the additional risks involved with having a development programme more than they are willing to take on.
- 4.5. The highest proportion of developers was found among local authority stock transfer associations, who were able to draw on the asset value of their ex-council stock as a basis for borrowing (Table 5). The lowest proportion of developers was found among special needs providers.

**Table 2: Housing associations developing or not developing by number of self contained dwellings in management**

Number of self-contained dwellings	Are you currently developing any new social housing?				n =
	Yes		No		
	Number	%	Number	%	
0 – 499 <sup>1</sup>	14	60.9%	9	39.1%	23
500 – 999	11	84.6%	2	15.4%	13
1,000 – 4,999	30	83.3%	6	16.7%	36
TOTAL	55	76.4%	17	23.6%	72

**Table 3: Housing associations developing or not developing by number of bed spaces in shared accommodation**

Number of shared bed-spaces	Are you currently developing any new social housing?				n =
	Yes		No		
	Number	%	Number	%	
0 – 100 shared bed spaces	14	70.0%	6	30.0%	20
100+ bed spaces <sup>1</sup>	9	69.2%	4	30.8%	13
TOTAL	23	69.7%	10	30.3%	33

*Note 1: There are six specialist supported housing providers that have few or no self-contained dwellings in their stock. Four of them do not have a development programme.*

**Table 4: Housing associations developing or not developing by value of their housing stock**

Number of self-contained dwellings	Are you currently developing any new social housing?				n =
	Yes		No		
	Number	%	Number	%	
£1.5 million - £24.999 million	16	69.57%	7	30.43%	23
£25 million - £49.999 million	13	81.25%	3	18.75%	16
£50 million and over	15	88.24%	2	11.76%	17
TOTAL	44	78.57%	12	21.43%	56

*Note 1: Four responses were excluded from this analysis as they described group stock values. One association entered a value that was probably an error given the location and size of its housing stock and this was also excluded from the analysis. Nineteen associations did not include a valuation.*

Table 5: Developing/not developing by type of association

Type of association	Are you currently developing any new social housing?			
	Yes		No	
	Number	%	Number	%
Provide mainly general needs housing for rent	23	76.7%	7	23.3%
Provide mainly special needs housing for rent	4	50.0%	4	50.0%
Provide general needs and special needs housing for rent	10	76.9%	3	23.1%
Provide low cost home ownership housing	0	-	0	-
Local authority stock transfer association	12	85.7%	2	14.3%
Other	6	75.0%	2	25.0%
<b>TOTAL</b>	<b>55</b>	<b>75.3%</b>	<b>18</b>	<b>24.7%</b>
<i>Total number of responses ('n') = 73</i>				

- 4.6. 27% of constitutional group members are not currently developing compared with less than 20% of associations that are not currently part of a group (Table 6). It is likely that development activities are carried out centrally by the parent body in groups and some subsidiaries may say they are not developing even though they will receive new stock from group-wide development programmes.

Table 6: Housing associations developing or not developing by whether member of a constitutional group

Group status	Are you currently developing any new social housing?			
	Yes		No	
	Number	%	Number	%
Member of a constitutional group	22	73.3%	8	26.7%
Not a member of a constitutional group	33	80.5%	8	19.5%
<b>TOTAL</b>	<b>55</b>	<b>77.5%</b>	<b>16</b>	<b>22.5%</b>
<i>Total number of responses ('n') = 71</i>				

- 4.7. Associations working in London and those that are working in more than one Housing Corporation region are almost twice as likely not to be developing new housing as those that work in other regions (Table 7). Cost is likely to be a significant factor working against London-based associations; while administrative complexity may be an issue for those working in more than one region.

Table 7: Housing associations developing or not developing by Housing Corporation region

Housing Corporation region	Are you currently developing any new social housing?			
	Yes		No	
	Number	%	Number	%
North	13	76.5%	4	23.5%
Central	11	73.3%	4	26.7%
London	8	57.1%	6	42.9%
South East	14	100.0%	0	0.0%
South West	10	90.9%	1	9.1%
More than one region	4	57.1%	3	42.9%
<b>TOTAL</b>	<b>60</b>	<b>76.9%</b>	<b>18</b>	<b>23.1%</b>
<i>Total number of responses (n) = 78 (5 associations ticked more than one category)</i>				

- 4.8. Associations working in inner city and sub-urban areas are almost twice as likely to be non-developers as those working in other urban, rural or a mix of areas (Table 8). This is likely to be a product of existing development density, planning requirements and land availability.

Table 8: Housing associations developing or not developing by type of area

Type of area	Are you currently developing any new social housing?			
	Yes		No	
	Number	%	Number	%
Inner city area	12	54.5%	10	45.5%
Suburban area	7	63.6%	4	36.4%
Other urban area	4	80.0%	1	20.0%
Rural area	10	90.9%	1	9.1%
A mix of areas	22	81.5%	5	18.5%
<b>TOTAL</b>	<b>55</b>	<b>72.4%</b>	<b>21</b>	<b>27.6%</b>
<i>Total number of responses (n) = 76 (3 associations ticked more than one category)</i>				

## Why some housing associations are not currently developing new homes

- 4.9. Of the 19 housing associations that said they were not developing any new social housing at present, 16 (84%) said they have had a development programme at some time in the past. The three associations that said they have not had a development programme in the past are all 'niche' providers – a small cooperative housing society and two small special needs providers. Those associations that have been involved in development activity in the past gave a number of reasons why they were no longer involved in development (Figure 2).

Figure 2: Selected reasons why associations are no longer developing new homes

### Grant rates / lack of funding

- The development opportunities available to us do not stack up financially without a higher level of grant from the housing corporation. Financial appraisals suggest an overall weakening of our business plan if we were to proceed.
- We chose not to bid due to the greatly reduced grant rates being offered in Leeds (roughly half the previous rates), and were not convinced about the 'subsidise with property for sale' model.
- Lack of funding available and also unable to compete with the larger HA's.
- Changes in grant rates led us to believe that continuing along the development path would lead to a loss of independence.
- We funded it ourselves. The route to get funding from the HC is not easy for small housing associations; we have to be looked after by large HAs even though it costs more!
- Current tenants' rents will repay loans but they will have no access to new homes. Low rent base limits borrowing capacity (although equity is very strong).

### Lack of development opportunities

- Lack of affordable local land.
- Difficulty in finding a partner RSL to develop with in our geographical areas.
- We are completing the refurbishment of stock that was transferred to us in 1992. Our previous development programme related to building 55 new homes on sites that had previously contained two tower blocks that were demolished.
- Limited development opportunities. We are a partial stock transfer, single estate operating totally in that area at present.
- Concentrating on modernising/redeveloping existing stock. No opportunities at development stage at present.

### Development transferred to group level

- Development is now a Group-level function.
- All property holding and new development has been transferred to [group name].

### Decided to be housing management only

- When government policy indicated a split between housing management and housing related support and care provision [association name] decided to focus on provision of housing support and care.
- We stopped developing just over 10 year ago in order to focus on the provision of housing management services to our tenants.

*Source: quotes from responses*

- 4.10. Only 11 out of the 19 non-developer associations (57.9%) believed that they would start developing again in the near future (Figure 3). It is worth noting that these responses were written before the full implications of the current financial crisis were understood. It is worth reflecting on whether the survey would have received the same responses in April 2009.

**Figure 3: Expectations of when development will resume**

- I expect grant rates to increase, and on that basis hope to be bidding again in 2009
- I think it is unlikely that we will do any new development until 2010
- When land becomes available maybe through community land trust initiatives
- Within the next year. We have some capacity on an existing estate that we wish to develop. We are also looking for other local opportunities.
- Hope to start developing within a year with the help from [name of housing association group]
- 2010
- Currently developing a master plan for the regeneration of the whole area, likely to be a 10 year programme, commencing 2010
- Within the next 6 months

*Source: quotes from responses*

- 4.11. The 6 associations that do not have a development programme and do not expect to develop again were asked what would need to change for them to change their minds. Three of them referred explicitly to higher grant rates. The other three said that they would not carry out development themselves and that this would be done at group level.

### **Housing association development programmes – an over view**

- 4.12. Table 9 shows the types of housing being built by respondent associations at the time of the survey. At the time of the survey (autumn 2008), the majority of associations in the survey were developing general needs housing for rent (91%). Just over one third were developing special needs housing (37.8%); half were providing low cost home ownership; and 22% were building housing for outright sale of market renting.

**Table 9: Types of housing under development**

Type of housing under development	Number of associations	Percent of respondent associations
General needs for rent	41	91.1%
Low cost home ownership	23	51.1%
Special needs for rent	17	37.8%
Housing for outright sale or market renting	10	22.2%
Key worker housing	5	11.1%
Private sector leasing in partnership with a local authority <sup>9</sup>	5	11.1%
Other	6	13.3%
<i>Total number of responses ('n') = 45</i>		

4.13. Most associations responding to the survey had relatively small development programmes (Table 10). Half of all respondents (21 associations) only account for 13% of the year 1 planned development programme, while the top 10 respondents account for two thirds of the programme.

**Table 10: Number of new homes planned in each year of the programme**

Associations grouped by quartiles in terms of number of new homes planned in year 1	Number of new homes planned	Proportion of all development identified
First quartile	1 to 13	3.2%
Second quartile	14 to 34	10.0%
Third quartile	35 to 64	19.2%
Upper quartile*	65 to 310	67.6%
<i>Total number of responses ('n') = 42</i>		
<i>* Three respondents listed development programmes of up to 900 new homes per annum. It is likely that these are group-wide programmes with only a proportion of the new homes being vested in or managed by the respondent association. When these are added, n = 45.</i>		

4.14. There is a similar pattern in the following years, with the top quartile accounting for around two thirds of the new homes that are planned in each year. This finding reflects recent Housing Corporation policy of channelling most of its approved development finance through around 70 large development groups or consortia.

<sup>9</sup> Private sector leasing partnerships between housing associations and local authorities are usually intended to provide temporary (less than 1 year) or longer term (1 to 3 years) housing for people who have been accepted by the authority as statutorily homeless. However, a number of these schemes are now providing pathways into secure housing as an alternative to the provision of a normal social housing tenancy.

- 4.15. 60% of respondents are members of a development consortium or group structure (see Table 11). The upper quartile associations in terms of the size of their development programmes are almost in every case members of development consortia or group structures. In only one case was an association that responded to this survey the lead member of its development consortium. The implications of this are that where small to medium-sized associations are part of a group structure or a development consortium, they are not likely to be driving the programme.

Table 11: The number of associations operating as an independent developer of new social housing or as a member of a development consortium or a group?

<b>Approach to development</b>	<b>Number of associations</b>	<b>Percent</b>
Independent developer	9	24.3%
Member of a housing association group structure or a development consortium	22	59.5%
Adopt a mix of both approaches	6	16.2%
<i>Total number of responses ('n') = 37</i>		

- 4.16. Associations varied considerably in their approach to planning their development programmes (Table 12). Almost half of them (42%) only have a one or two year cycle, and these tend to be the associations with small programmes. Small development programmes are likely to be set up as and when opportunities arise, and this results in short term planning. A similar proportion are planning over 4 or 5 years (42%). The associations with the longer planning cycles are those with the larger programmes. The evidence is clear. Small to medium-sized associations will have only restricted access to development opportunities, or will only have very small, short term programmes, unless they are a member of a larger group structure or consortium

Table 12: Length of the new social housing planning cycle

<b>Planning period</b>	<b>Number</b>	<b>Percent</b>
1 year	9	20.0%
2 years	10	22.2%
3 years	7	15.6%
4 years	5	11.1%
5 years	14	31.1%
<i>Total number of responses ('n') = 45</i>		

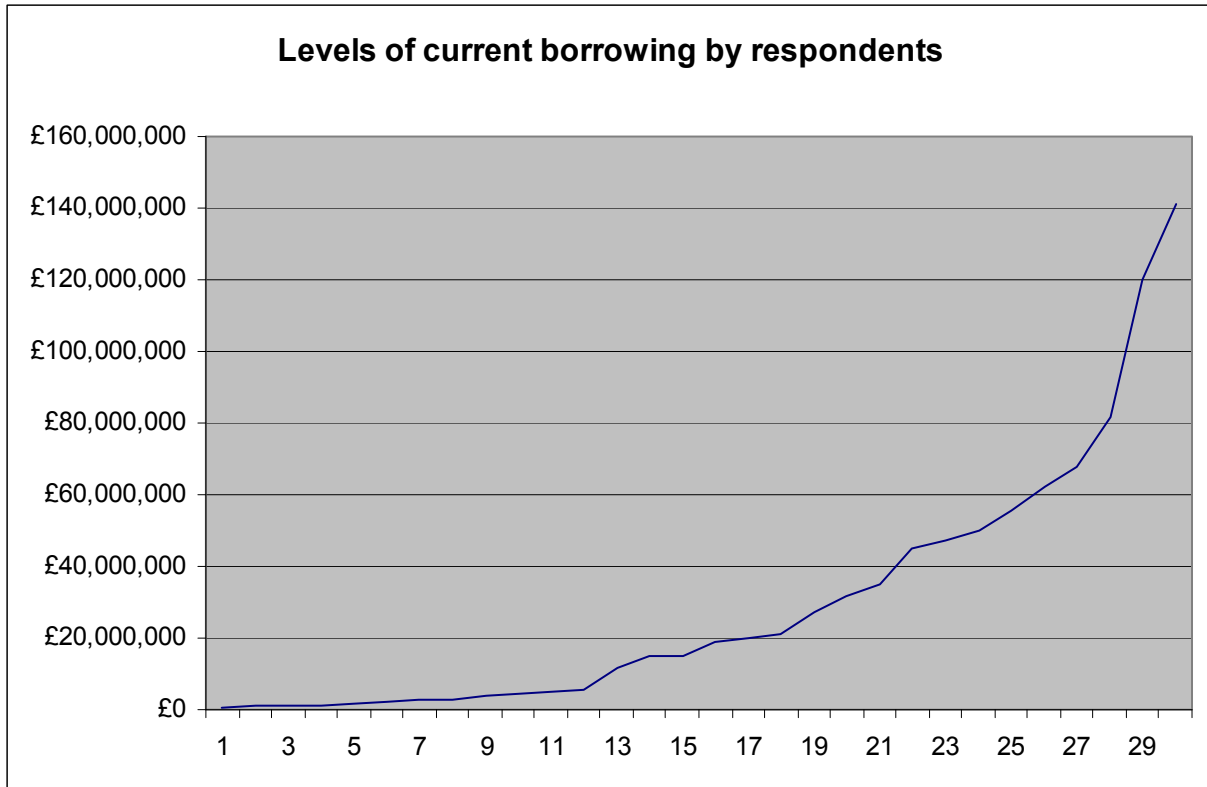
- 4.17. Not surprisingly, given these findings, the value of annual development programmes also varied widely. The value of the development programmes for which information was provided ranged between £500,000 and £21 million. Three programmes of more than £80 million were also mentioned, but we believe these were group-wide programmes not programmes for a single association.
- 4.18. Table 13 shows the main sources of funding for these development programmes. A clear majority of respondents rely mainly on Social Housing Grant and private finance as the basis for funding their programmes. These two sources represent 66% of all funding identified in the survey. Other significant sources included free land provided by developers under Section 106 planning agreements (44% of respondent associations); cross subsidy from other schemes including build for sale (33% of respondents); and use the of the association's own reserves (62%). A wide range of other sources of money accounted for 17% of funding.

**Table 13: main sources of development funding**

Source of funding	Number of associations using source	Proportion of total funding
Social Housing Grant	41	29.8%
Private Finance	41	36.1%
Housing association reserves	28	7.1%
Free land (including S106 Agreements)	20	4.3%
Cross subsidy from other schemes	15	5.4%
Other	19	17.3%
<i>Total number of responses ('n') = 45</i>		

- 4.19. The associations that provided information about their borrowing said that, in total, they owed financial institutions £1.7 billion at the end of their most recent financial year for which figures were available. Average borrowing was £45.3 million, but 73.6% of respondents had borrowing of £10 million or less. As Figure 4 shows, the picture is distorted by two associations that reported borrowing of £300 million and £500 million respectively. The two high value results are almost certainly the level of borrowing for a group rather than an individual association. Two other associations cited borrowing of £120 million and £141 million respectively. These have been included in the figure even though it is not clear whether this is association or group-wide borrowing.

Figure 4: Levels of current borrowing by respondent associations



- 4.20. The total annual interest paid on this borrowing was £90.7 million per annum in the most recent financial year. One third of associations (32.3%) paid £250,000 or less; 16% paid less than £1 million in interest; while a further 32.3% paid less than £5 million. 20% of respondents paid more than £5 million in interest, and at the top end of the distribution, two associations were involved in groups that paid £22 million and £30 million in interest.
- 4.21. Associations were asked to explain why they had adopted their own particular approach to development (Figure 5). Four associations (11%) said that they had not joined a development consortium or constitutional grouping because they valued their independence. However, of those that were members of a consortium or group:
- 4.21.1. nine associations (24%) said it was because they were too small to sustain a development programme on their own;
  - 4.21.2. nine said that it was in order to access Housing Corporation funding, which they would not have been able to obtain if they had remained independent;
  - 4.21.3. seven (19%) said that a partnership approach led to greater efficiency; and
  - 4.21.4. one association said that partnership was about risk sharing – an important consideration for a small association.

**Figure 5: Selected individual responses**

- We are a small developer, so we have joined forces with our parent and a couple of other small associations.
- We stayed independent to keep control. However in order to access grant from 2008/11 we may be forced to join a procurement group.
- We adopted this approach as the Housing Corporation would no longer fund [association name] as an independent developer despite an excellent track record and green lights for the Homes and Communities Agency. Not our preference.
- Because direct access to SHG would have been virtually impossible, and the association did not have the technical resources to address enhanced quality criteria.
- The association has worked in this collaborative way for a number of years since partnering the ADP was introduced in 2004. It has proved to be a cost efficient way of delivering against increasingly demanding targets.

*Source: quotes from responses*

## Sources of development land

4.22. Table 14 shows the main sources of land for the associations' development programmes. Looking at regular sources of land, the main sources of land are S106 planning agreements (40.5%) and land obtained from developers as part of a design and build contract (24.3%). Two thirds of all regular sources of land comes from these two sources. Discounted land obtained from a public authority in return for a benefit such as nomination rights accounts for a further 24.3%. Purchase on the open market is sometimes used by almost half of respondent associations (45.9%). Other possible sources include:

- 4.22.1. land purchased by tender from a public authority at 'best price';
- 4.22.2. land banking;
- 4.22.3. developments on marginal land already owned by the association, or by redevelopment of existing buildings;
- 4.22.4. via a site finding service.

4.23. We invited comments from associations on their use of Section 106 planning agreements. Selected responses are set out in Figure 6.

Table 14: The main sources of development land and frequency of use

Source of land	Regular	Some-times	Rarely	Never
Section 106 planning agreements	40.5%	35.1%	8.1%	5.4%
Developers as part of a design and build contract or similar	24.3%	37.8%	8.1%	10.8%
Land from public authorities discounted in return for a benefit to the authority (e.g. nomination rights)	24.3%	35.1%	18.9%	2.7%
Purchase on the open market	16.2%	45.9%	21.6%	2.7%
Land from public authorities purchased by tender to achieve best price for the authority	16.2%	27.0%	24.3%	18.9%
Land banking	0.0%	27.0%	29.7%	13.5%
Other	5.4%	10.8%	2.7%	5.4%
N = 37				

Figure 6: Selected individual responses referring to S106 Agreements

Positive comments

- S106 agreements have been a mainstay for us until recently. It can be much more straightforward than SHG-financed schemes, but quality can be variable - we have acquired some superb units and some very ordinary ones. Some local authorities have tried to be much too clever with supplementary planning guidance for S106, instead of keeping it simple. Dislike lack of control over design; like mixed communities.
- Until recently 55-65% of our annual programme was on section 106 sites. Very difficult to compete for land against developers on the open market in recent rising market - this has now changed and we expect open market sites and LA schemes to make up 70-80% of the programme in the near future.
- It is effective if the local authority takes control of the process and works with the RSL to get the best deal from early on. Less effective when developer "auctions" the 106 element to highest bidding RSL.
- Has been a regular source of new affordable housing at nil grant, and by definition in 'mixed communities'. Often protracted negotiations between developer, LA, RSL and HC. New s106 opportunities unlikely to come forward in current market conditions

Critical comments

- This can be an unpredictable way of developing stock as the units being delivered are reliant on the developer deciding to proceed with the build. Currently this means a number of units are not coming through.
- S106 deals with developers produce lower cost schemes, but quality is more difficult to achieve and there is no control over the timetable. Most of the variation in our programme relates to delays by developers.
- There has been a dependency on being selected through competition by the local authority and developer on S106 schemes, usually won by those having the deepest pockets and taking greater risks on shared ownership or outright sales cross-subsidising under-funded rented housing programmes. We set out our own business plan assumptions and design standards and have stuck to them. We were outbid for a lot of S106 development opportunities in 2006/7 but these are now coming around again.

Source: quotes from responses

## The approach adopted by associations to contracting with builders and developers

4.24. Associations were asked to say which approach to contracting they adopt by selecting an answer from a list. The results are given in Table 15. The most common practices were based on partnering arrangements (73% of respondents); open tenders (62.2%); and the JCT design and build contract (56.8%). Negotiated tenders were also used in 40.5% of associations. One association said they base their approach on a fixed price tender, then negotiate.

Table 15: Approaches to contracting with builders and developers

Approach to contracting	Number of associations	Percent
Open tenders	23	62.2%
Negotiated tenders	15	40.5%
Partnering arrangement with a contractor previously selected onto an approved list or framework agreement	27	73.0%
JCT Design and Build	21	56.8%
Other	3	13.5%
<i>n</i> = 37		

4.25. Asked why they adopted these approaches:

- 4.25.1. eight associations cited value for money reasons (21.6%);
- 4.25.2. three associations said reliability of results was the driver (8.1%);
- 4.25.3. three associations said they had adopted their approach to comply with EU procurement rules (8.1%);
- 4.25.4. six associations said the approach was determined by their development consortium or housing association group (16.2%); and
- 4.25.5. thirteen associations gave what was essentially a pragmatic answer.

### Figure 7: Selected individual responses

- It depends on whether the scheme comes with a developer in tow (negotiated or design and build) or if we have a clean site - partnering seems to be fading away and so we have pursued a few more open tenders again to get keen prices in the current market.
- Open tender is the best value for money exercise; partnering saves time and cost when average costs are a given.
- We have, as part of our consortium of RSLs, introduced an EU compliant framework of consultants and contractors with whom to work.
- We try to be flexible and adopt the most appropriate arrangement in the particular circumstances.
- We procure opportunities from a wide variety of sources via a wide variety of contractual routes - our approach is flexible – we focus on the right product in the right place more than the specific procurement vehicle.

Source: quotes from survey responses

## Financial modelling and scheme appraisal

- 4.26. Almost all the associations with active development programmes carry out some form of financial modelling or scheme appraisal prior to entering into contracts (97.3%). Of these, fifteen (41.7%) use a commercially-available spreadsheet package or one they have obtained from a third party – possibly one of their development partners; fourteen (38.9%) use modelling packages that they have developed in-house; and seven associations (19.4%) use both approaches.
- 4.27. Of the commercial or third party packages:
- 4.27.1. eight associations (36.4%) use Proval, a package developed by Shelton Development Services Limited (see <http://marvin.s-d-s.co.uk/Software/default.aspx>); alternatively,
- 4.27.2. five associations (22.7%) use PAMWIN developed by M3 Housing (see: <http://www.m3h.co.uk/go/development/pamwin-plus>).
- 4.28. Individual associations have used software developed by Tribal or Weedon Grant. Others use net present value calculations to show costs over a given property life.

### Figure 8: Selected individual responses

- A proprietary product benefits from existence of a user group, regular updates, is more robust than internal models, and there is reduced ability to "tinker" with key assumptions.
- This is a recognised industry tool which gives comfort that as it is so widely used. It is quick to spot errors as well as building in all the checks that RSLs need and which the Housing Corporation demands.
- The package we use was recommended. It offers more functionality than our previous (in house) model; it is regularly updated and is used by our key partners, enabling data to be conveniently exchanged.
- PAMWIN is good for rented schemes but has limitations in appraising shared ownership schemes.

*Source: quotes from survey responses*

## Ensuring cost control and efficiency in the development programme

- 4.29. Associations were asked to say how they keep development costs under control (Table 16). In descending order, the three most common responses were:
- 4.29.1. through group-wide procurement or membership of a procurement club (16 associations, 44.4% of responses);
- 4.29.2. by ensuring that the right procurement process for the job is chosen (12 associations, 33.3%); or
- 4.29.3. through careful design, specification and adoption of a systems approach to components (10 associations, 27.8%).

Table 16: Approaches to contracting with builders and developers

Methods of cost control	Number of associations	Percent
Group-wide procurement or membership of a procurement club	16	44.4%
Choosing the right procurement process for the job (a range of comments)	12	33.3%
Careful design, specification and a systems approach to components	10	27.8%
Use a development agent	5	13.9%
Cheap land / SI06 Agreements	5	13.9%
Value engineering	5	13.9%
Active process and supply chain management	5	13.9%
Use in-house teams to save costs	5	13.9%
Good planning and cost control	4	11.1%
Fixed / controlled consultant fees	3	8.3%
N = 36		

Figure 9: Selected individual responses

- We take out the future management and maintenance costs from the cost model, and absorb these as part of our efficiency gains.
- We remodel existing schemes where there is additional land to produce additional units.
- We develop using a turn-key approach where we can.
- We involve contractors at the feasibility study stage so abnormal costs can be paid for from the land price.

*Source: quotes from survey responses*

4.30. Associations were also asked to say how they try to make their development programmes efficient. Once again, membership of group structures and development partnerships was cited as the main contributory factor by more associations than any other (18 associations, 50% of respondents to the question). Other significant factors listed were:

- 4.30.1. the design process (11 associations, 30.6%);
- 4.30.2. choice of materials and technical specification (9 associations, 25%);
- 4.30.3. the procurement process, and the internal management process (in each case 6 associations, 17%); and
- 4.30.4. cross subsidy including across multiple sites 6 associations, 17%).

4.31. Other issues mentioned included use of external advisors, the approach taken to land acquisition, project planning and management.

- 4.32. Just over half of the respondents said that they employ external project managers to assist in managing quality, costs, efficiency and delivery. Nine associations (47.2%) use a number of different project managers; while 7 associations (36.8%) have a particular firm that they favour. These included:
- 4.32.1. Quadrant;
  - 4.32.2. Denley King (recently merged with Boxall Sayer Limited and Fletcher McNeill Limited to form the Baqus Group plc);
  - 4.32.3. EC Harris;
  - 4.32.4. Mike Hayman;
  - 4.32.5. John Clark
  - 4.32.6. Philip Pank Partnership (2).

### Approaches to treasury management

- 4.33. Associations were asked to outline their approach to treasury management in connection with their development programmes. The responses were almost as varied as the number of responding associations. Some examples are given below.

Figure 10: Treasury Management - Selected individual responses

- Borrowing agreed to fund the development programme plus a revolver loan to cover development period interest.
- Balanced range of long and short term fixed rate borrowings.
- We set up a borrowing facility at transfer (from a local authority – JP), with debt on a 70% fixed/30% variable basis.
- We have had a single lender (Nationwide) since stock transfer. Substantially extended our facility in 2006 as we could see that it was a favourable time. 80% of loans on fixed rates taken at favourable times, mainly long-term.
- Always try to borrow on fixed rate from a small selective list of funders.
- Director of Treasury proactively maintains relationships with existing and future lenders. Regular dialogue and sharing of information to maintain lender confidence.
- We have negotiated a facility sufficient for 3 years of our program and draw down tranches only when required. Cash reserves are used first. Finance Director receives a monthly development cash-flow update.
- Just negotiated a longer term facility rather than past use of borrowing on property by property basis. Using two or three banks for borrowing and treasury.

Source: quotes from survey responses

- 4.34. Nineteen of the associations that responded to this question (54.3%) use external financial advisors to assist in borrowing and treasury management policy and decision-making. Sector Treasury Services (see: <http://www.sector-group.com/>) and Tribal Treasury Services (see: <http://www.tribalgroupp.co.uk/>) stand out as by far and away the most commonly employed advisors. Other firms mentioned include Weedon Grant, Hailwood and Co, KPMG, Rathbones, Beha Williams and BNWL Enterprise.

- 4.35. Three quarters of the associations (76.5%) carry out financial modelling to assist with managing their loan portfolio. The majority (52.0%) use modelling packages developed in-house. Eight associations (32%) use commercial or third party packages; and four associations (16%) use a combination of both approaches. Of the commercially developed packages, most associations use BRIXX (see: <http://www.brixx.com/index.php/brixx-solutions/>).

### Managing risk

- 4.36. The survey uncovered a wide spread of different approaches to risk management. Most responses were fairly generalised in the space available on the survey form. Nevertheless, there were a number of helpful pointers in the detailed comments.

Table 17: Approaches to avoiding or minimizing risk in association development activities

Approaches to managing development risk	Number of associations	Percent
Robust performance and risk management	21	61.76%
Robust business planning	16	47.1%
Compile a risk register	6	17.7%
A formal scheme approval process	6	17.7%
Partnering and consortium working to spread risk	6	17.7%
Careful approach to procurement and contracting	5	14.7%
Focus on small developments	5	14.7%
Use design and build contracts to transfer risk to developer	5	14.7%
Independent scrutiny of risks and costs	5	14.7%
Careful tenure mix strategy – no LCHO	4	11.8%
Post-completion scheme review	3	8.8%
Focus on small sites	3	8.8%
Outsource specialist skills	2	5.9%
balance SI06 with direct purchase schemes to balance risk	1	2.9%
<i>n = 34</i>		

#### Figure 11: Selected individual responses

- Formal approval required for all schemes based on detailed financial and risk appraisal report.
- Individual risk plan for each development scheme with scoring system.
- Strict process of gateways to progress from one stage to another.
- Ensuring we have an independent valuation for the site and units and getting a 'value for money' report on each scheme.
- Insurance bonds bought for developments.
- Focus on straightforward development packages from developing partner.
- Purchase units at completion when costs and standard are known.
- Development risk identified on corporate risk map and subject to regular review.

Source: quotes from survey responses

4.37. Associations were also asked to list three ways in which they avoid or minimise risk on treasury management and borrowing. Even though there are disagreements between some of the positions being expressed, all of the approaches summarised below give a useful pointer to how smaller associations have had to become more professional in their approach to managing the financial risks associated with extensive borrowing.

**Table 18: How associations avoid or minimise risk in their borrowing and treasury management activities.**

<b>Approaches to managing borrowing and treasury risk</b>	<b>Number of associations</b>	<b>Percent</b>
Develop a clear treasury management strategy and business plan relevant to your programme – make it risk averse	15	44.1%
Carry out treasury and cash flow monitoring and reporting at least quarterly	15	44.1%
Build relationship with approved financial institutions and keep it under review	8	23.5%
Build a portfolio of borrowing on different terms, rates and time periods - 'spread the risk'	7	20.6%
Use qualified consultants as advisors with good professional indemnity insurance	5	14.7%
Use specialist techniques - hedging, interest rate fixing, derivatives/SWAPS, interest rate caps etc to limit risk	5	14.7%
Monitor performance against loan covenants	3	8.8%
Do not consider new borrowing at present due to higher margins and more onerous conditions	3	8.8%
Borrow at fixed rates	3	8.8%
Run the Housing Corporation viability tests in changing market conditions	1	2.9%
Revenue management is important	1	2.9%
Make sure you have expertise on Board of Directors / Management Committee	1	2.9%
Concentrate on security rather than rate of return	1	2.9%
Share risk in a group	1	2.9%
<i>n</i> = 34		

### **Business planning**

4.38. More complex development programmes often involving multi-agency partnerships coupled with multiple financing streams have led to an increased emphasis on organisation-wide business planning on the part of English housing associations. Table 19 gives a summary of responses; and selected individual responses are given in Figure 12.

**Table 19: Approach to association-wide business planning.**

<b>Approaches to business planning</b>	<b>Number of associations</b>	<b>Percent</b>
Regular updates and/or review (6 monthly or annual) at senior management team and board level	8	27.6%
Based on 30 year plan	5	17.2%
Based on 5 year plan	4	13.8%
Planning process involves board members, staff and customers	4	13.8%
Plan looks at all aspects of the business	3	10.3%
Plan based on financial modelling, scenario and sensitivity testing	3	10.3%
Plans developed at operating association level then assembled into a group-wide plan	2	6.9%
<i>n</i> = 34		
Note: 5 responses were not included in this table – included e.g. 'Don't know' and 'Question far to generalised'		

**Figure 12: Business Planning - Selected individual responses**

- Results from staff away day and residents' away day feed into Board strategic away day in December. Business plan priorities identified at Board away day for draft plan and corporate targets for following year presented to the Board in February for approval.
- We are using a business planning model linked to the annual budget process. Regular reviews at senior team and Board level.
- Board away days to discuss Growth, Development and Finance 5 year Growth Plan and 360-degree feedback.
- Financial modelling through Brixx to demonstrate ability to pay back loan. Thorough exploration of all assumptions each year. Scenario testing. Wider business planning using EFQM Business Excellence principles, often starting with SWOT/PESTLE type analyses to prioritise activities against our key objectives.
- This is a fully inclusive approach which balances the financial requirements of the business with aspirations as a social housing landlord. The board and the executive work together to ensure that the plan is deliverable and sustainable and meets the organisation's vision. The plan is then rolled out to the whole organisation along a golden thread of departmental and individual objectives.

*Source: quotes from survey responses*

4.39. There is an interesting divergence between those associations that plan on a 30 year cycle, and those that plan over five years. While there is no hard evidence one way or the other, our working hypothesis is that those that plan over 30 years have larger development pipelines and borrowing portfolios than those that plan over five years. This may also be a proxy for whether or not the association is a member of a group structure and/or development consortium.

- 4.40. Just over half of the associations that responded on business planning (55.9%) said that their approach had changed in recent years. A large majority of associations (94.1%) said that they adopt financial modelling techniques to assist their business planning. In most cases (71.9% of respondents) business planning is an in-house activity, but 25% use a mix of in-house expertise coupled with use of external consultants. Of those associations that use external consultants the Tribal group is the firm most commonly mentioned (5 associations), while other associations use Ernst and Young, Hailwood and the Housing Quality Network.
- 4.41. Practice is evenly divided between associations that have developed their planning software in-house (53.3%) and those that have purchased a commercial package (46.7%). Half of the associations that use a commercial package use BRIXX. Other associations use packages designed by Tribal, Weedon Grant and Nationwide Building Society.

### **The impact of falling grant rates and the efficiency agenda on small to medium sized housing associations in England**

- 4.42. There were 32 responses to this question. Responses were very varied and we have grouped them into themes below. There was also some variation in the responses which appeared to differentiate between smaller associations that were still trying to manage their own development programmes, and associations that were involved in larger programmes, often as part of development clubs or group structures.

#### Figure 13: The impact of private finance on development - selected individual responses

- Larger development programmes (9 responses).
- Increased efficiency in development, overheads spread over more homes (3 responses).
- Need for a more conservative approach to development.
- Focus on design and build, increased efficiency in procurement.
- More scrutiny of products and costs.
- More certainty for larger developers' development pipeline; but a narrower selection of potential projects for one association; limited opportunities to buy land locally for another; and another association does not develop any more.
- Opportunities to buy off the shelf in current financial climate.
- We have had to pursue temporary housing and private sector leasing schemes to meet housing need.
- Opportunities to develop shared ownership and market for sale.
- Able to provide specialist housing.

*Source: quotes from survey responses*

- 4.43. Taken as a whole, the responses on development appear to show that even smaller associations have become more professional and financially aware in their approach although they may have had to make compromises in respect of independence in the process. This indeed was an underlying objective of the Housing Corporation's strategy for managing its development programme since the early 2000s.

Figure 14: The impact on finance - selected individual responses

- More risk, less room for error (7 responses).
- Increased building costs have largely absorbed efficiency savings.
- Bigger scheme deficits.
- Tighter finance and financial / development appraisal.
- Higher gearing, bigger interest payments.
- Access to more development finance, but on the basis of more borrowing.
- Longer borrowing periods – up to 30 years or more.
- Higher rents for tenants.
- No great efficiencies for small operators with small schemes.
- Costs have been driven down and are more competitive than before.
- More exposed to property market cycles.
- Greater awareness of the commercial basis for investment.
- Tax planning now part of decision-making.
- One association has used up its reserves so is more exposed financially.

*Source: quotes from survey responses*

- 4.44. Compared with the comments about the impact of the mixed funding regime on development activity, the comments about its financial consequences are more contradictory. There is a consensus that financial risks have increased and that there is less room for error. There is a suggestion that increased building costs have absorbed efficiency savings; that larger-scale development has been bought at the cost of more borrowing; and that with more borrowing goes bigger interest payments and higher gearing between borrowing and the value of property equity.
- 4.45. Associations have become more exposed to market cycles. The crisis of bank lending brought about by the collapse of the secondary mortgage market for lenders has triggered a more conservative approach to housing association lending on the part of a number of financial institutions. Financial instruments negotiated when market conditions were favourable and which have reached their repayment date are, in some cases, now being replaced by demands for much higher interest rates. As a result the cash flow position of some associations is thought to be reaching a critical level, and the Tenant Services Authority is maintaining a careful watch on a number of associations. The evidence is, therefore, that the situation has become even more critical since associations responded to our survey.

Figure 15: Other effects of the mixed funding regime - selected individual responses

- More partnership working (4 responses).
- Has resulted in a higher association profile.
- Marketing to lenders is now important.
- Release of in-house resources previously employed in development activity.
- Increased skill levels.
- Development and growth are embedded in organisational culture – this brings dynamism.
- Have needed to develop a balance between development aspirations and improved service delivery.

*Source: quotes from survey responses*

4.46. A majority of associations responding to the survey said that there were benefits to them arising from the mixed funding regime. The regime had resulted in:

4.46.1. more homes were being built than before;

4.46.2. development programmes that adopt a more commercial approach tend to be more efficient;

4.46.3. better quality housing at lower unit cost giving better value for money;

4.46.4. better control of cash flow and risk; and

4.46.5. more effective governance because Boards have had to be 'skilled up'.

4.47. However, about one third of the respondents said either that there were no benefits or that they could not think of any.

4.48. Looking next at the challenges that the mixed funding regime had posed for housing associations, there was a mix of responses. Issues relating to financing and risk appeared to outweigh issues relating to the development process itself in importance.

Figure 16: The challenges of the mixed funding regime - selected individual responses

- Getting developments to stack up financially (10 responses).
- Finding suitable sites for development (5 responses).
- The impact of the economic climate on availability of finance and on interest rates (5).
- The need for greater financial control and better cash flow management (5).
- Availability and cost of funding (4).
- Maintaining sufficient asset cover to support more borrowing (4).
- The need for greater efficiency vs the ability to achieve it (4).
- Making smaller development programmes pay their way (3).
- Managing loan portfolios and lenders' covenants, and the relationship with lenders (2).
- Coping with greater financial risk (2).
- Loss of control over the final product.
- Business planning in real time as conditions change.

*Source: quotes from survey responses*

Figure 17: Overcoming the challenges - selected individual responses

- Through partnerships or mergers (12 responses).
- Prudent, long term financial planning and treasury management (12).
- New approaches to development - land purchase, mixed tenure, cross-subsidy (6).
- Improved efficiency and value for money (6).
- Careful programme management (4).
- Professional staffing and investment in training (4).
- Good external advice from consultants and others (3).
- A focus on risk management (2).
- A long term approach to asset management.
- Through use of reserves to underpin investment to the point where we have used all our reserves.
- We have survived with difficulty or through good fortune (3).

*Source: quotes from survey responses*

- 4.50. In spite of the difficulties they have faced, most associations (71.9%) said that they had received the information and advice they needed to adapt to change over the past decade. A small number who said they would have liked more help gave examples of the kind of support they would have liked.

Figure 18: Additional support needed - selected individual responses

- More flexibility in considering schemes on an individual basis.
- The perception was that developers could do a better job, which is far from the reality. Standards are poorer in the private sector. Associations are now well ahead in delivering eco-efficient homes with better space standards for less money because they do not have to claw back profit.
- More support in terms of funding in rural areas.
- Variable grant rates to reflect the nature of the schemes being developed.
- Government backed private loans to reduce market risks for small associations.
- More influence over the caliber of board members when the association was established.

*Source: quotes from survey responses*

- 4.51. Finally, associations were invited to give a more extended comment on their overall impressions of how well or how badly the impact of reducing grant rates and the efficiency agenda had affected their development programmes and their associations. We have set out a number of these comments below and on the following page. What is clear from these comments is that the economic downturn of 2008, coupled with changing attitudes on the part of lending institutions, have been strong influences on how positive senior housing association managers responding to the survey feel about the financing and development regime promoted by the Housing Corporation prior to its dissolution at the end of 2008.

- 4.52. Recent comments by the Chief Executive of the Tenant Services Authority<sup>10</sup> suggest that the type of development regime brokered by the Housing Corporation may be at an end. If that is the case, then on the basis of these comments that would be welcomed by many housing associations.

Figure 19: General comments on the impact of the mixed funding and efficiency regime

- Due to the short term deficits new schemes will create, the association will not be in a position to develop for longer periods.
- Reducing grant rates are a thing of the past. Grant rates need and will have to go up in the immediate future in order to sustain development. I'm not convinced that the efficiency agenda has or will deliver the goods.
- Our association has limited ability to repay finance and we constantly strive to increase profitability. Higher grant rates would benefit us enormously as we cannot cross-subsidise.
- We do not have sufficient owned stock to look at building for sale and then cross-subsidising social rented housing, so low grant rates and rent restructuring limits have not helped. The current downturn is an opportunity to change this.
- Reducing grant rates has not taken sufficient account of increased development costs in recent years. There are limits to just how effective the efficiency agenda can be in such circumstances.
- Housing associations without reserves are being frozen out of the market unless they are willing to absorb costs whilst striving to meet the local needs they have to address. The Housing Corporation seems to have adopted the view that 'big is beautiful' and ignored the diversity of the sector which is what makes it successful in meeting local and diverse needs.
- Reducing grant rates disadvantage small and specialist RSLs disproportionately, reducing their development capacity. If this continues unchecked it may result in a less diverse sector and the permanent loss of specialist expertise and choice for tenants. However, successful partnership strategies can mitigate this disadvantage to an extent.
- We are a small specialist Association. We have four green lights; have top inspection ranking and have been the national RSL Centre of Excellence for tackling youth homelessness for 2 years. We have also won the Housing Corporation Gold Award in 2006. We are dependent on £500,000 charitable income each year to do what we do. We cannot afford to borrow. We have modest development ambitions for ourselves and currently rely on 100% grant either through the Housing Corporation or commissioners to achieve them. We would work with other housing associations to achieve our broader ambitions for housing young people. We are not hung up on ownership. Our contribution is in kind and our impact is significant. We prevent greater costs to our commissioners by working with more than 4000 vulnerable young people every year. We think this is efficient and see the capital as 'invest to save'. Our view is that there must be scope for high grant rates for supported housing providing the RSL can evidence high and sustainable impact.
- Pushing grant rates down on the basis that cross subsidy from outright sale and LCHO is available makes RSLs vulnerable to market cycles. Some RSLs are very exposed in terms of reliance on stair-casing and outright sale profits to generate surpluses, so production comes to a halt if consumer demand slows down.

Continued ...

<sup>10</sup> Peter Marsh, Chief Executive, Tenant Services Authority, speaking at a seminar for housing associations in Hampshire attended by the author, organised by Blake Laphorn Tarlo Lyons, Solicitors, in March 2009

Figure 24: continued

- Reducing grant rates have got to the point that last year in our home county where only one new scheme was approved across all associations. From this, it can be seen that rates have got to the point where they are unrealistic and preventing small and medium size associations from developing sites.
- It has been increasingly more difficult to compete with developers and large RSLs in a buoyant property market. However, due to the current 'crunch' the Housing Corporation has had to be more flexible on the level of grant per unit and we have seen a reduction in the demand for and the value of development land. Larger RSLs seem more exposed to the risk of unsold shared ownership properties and are more reluctant to follow up new opportunities.

Source: quotes from survey responses

John Palmer  
North Harbour Consulting  
05 May 2009

## **APPENDIX SURVEY METHODOLOGY, PROFILE OF THE STUDY POPULATION AND OF RESPONDENTS**

### **Aims and objectives of the research**

- A.1.1. Following on from the initial research into the impact of changes brought about in England by changes in the development funding regime, the Housing Executive commissioned a related study in July 2008 of the consequential effects of these changes for small and medium-sized housing associations in England, and of the strategies that they have adopted to continue to develop new homes and at the same time remain financially viable.
- A.1.2. We set out to achieve two objectives in the course of the research.
- 1.2.1. Firstly, we wanted to establish some parameters for the decisions taken by English housing associations on whether or not to continue development.
  - 1.2.2. Secondly, we wished to explore in some detail the way in which housing associations – and in particular small to medium-sized associations that are comparable to the generality of housing associations in Northern Ireland - have responded to changes in the development funding regime, the impact on their organisations, and the strategies they have adopted for growth or survival.

### **Methodology**

- A.1.3. In order to do this, we have carried out a survey of small and medium-sized housing associations ('Registered Social Landlords' or RSLs in the English terminology<sup>11</sup>) working in different parts of England.

### Survey Population

- A.1.4. The Housing Corporation provided a spreadsheet of small and medium-sized housing associations with fewer than 5,000 homes in management as at 31 March 2007, giving a short association name, registration number and stock size for each of them. The spreadsheet contained information about 1,467 associations. Following discussion with the Housing Executive, 1,114 very small housing associations with fewer than 250 homes in management were excluded from the survey population on the grounds that they were unlikely to be active developers of new homes. That left a potential survey population of 353 associations.

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<sup>11</sup> The term 'Registered Social Landlord' is used in England to refer to conventional housing associations, local authority stock transfer associations, arms length management organisations and housing companies. The term is not used in Northern Ireland and we will use the generic term 'housing associations' to refer to all types of non-local authority social landlords in this report.

A.1.5. Of these:

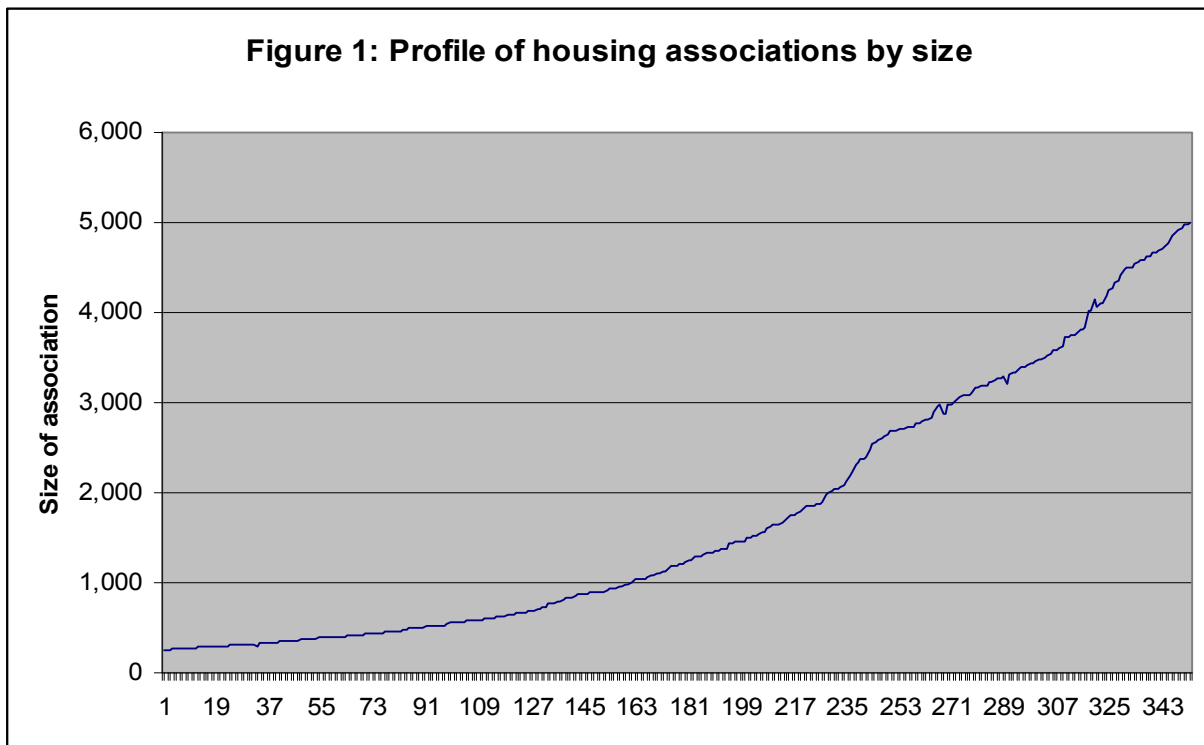
I.5.1. 88 associations (24.9%) had between 250 – 499 homes in management;

I.5.2. 72 associations (20.4%) had between 500 and 999 homes in management;

I.5.3. 192 associations (54.5%) had between 1,000 – 4,999 homes in management.

A.1.6. Figure A.1 plots the profile of the survey population by size – that is, the number of houses, flats or bed-spaces in management at 31 March 2007.

Figure A.1: Profile of housing associations by size (number of self contained dwellings and shared bed spaces in management at 31.3.07)



A.1.7. The Housing Corporation’s registration system differentiates between types of association in the letter prefix to each association’s individual number according to the main types of housing that they provided at the time of registration. From this we have constructed a profile of the associations contained in the survey population (Table A.1).

**Table A.1: Number and percentage of housing associations in the survey population by type**

<b>Category</b>	<b>Number in survey population</b>	<b>Percentage in survey population</b>
Almshouses	5	1.4%
Cooperatives	6	1.7%
Provide hostel / special needs housing	21	6.0%
Provide general needs housing	183	51.8%
Provide general needs housing and hostels	126	35.7%
Provide housing for sale or lease	12	3.4%
<b>TOTAL</b>	<b>353</b>	<b>100.0%</b>

### A note on group structures

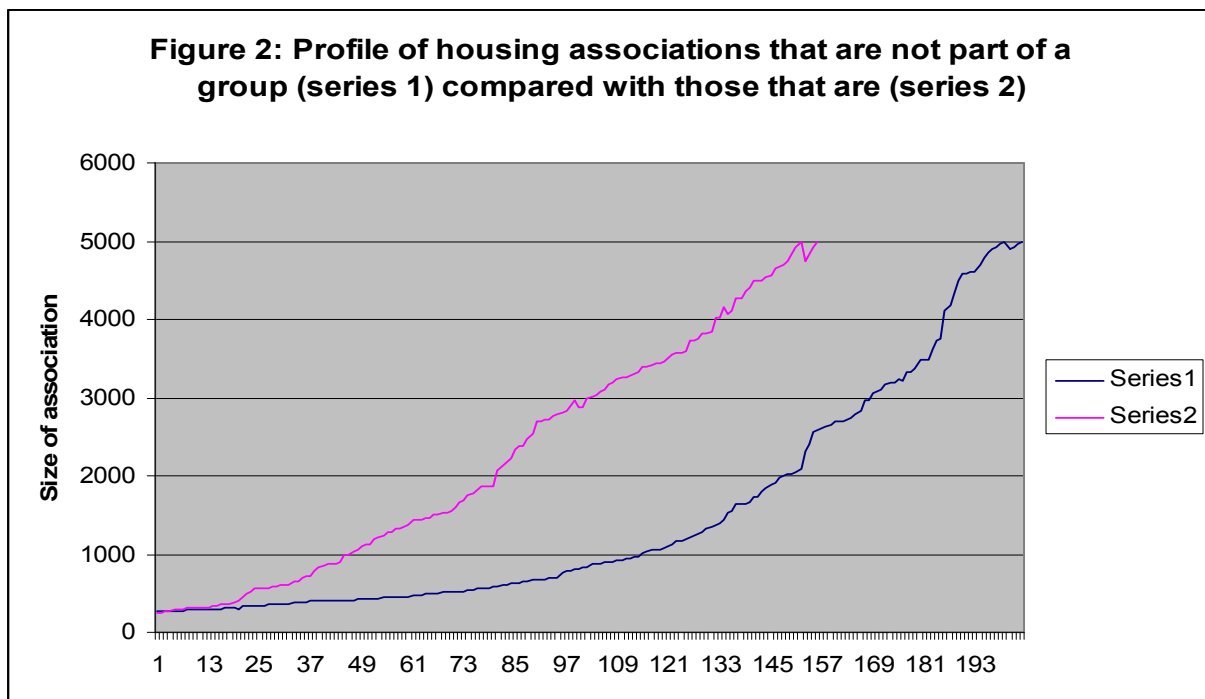
- A.1.8.** Additional research that we carried out, partly through our telephone contact with associations during the survey and partly through online research found that at least 152 associations (42.9%) were members of a constitutionally-based group structure. We say ‘at least’ because the situation is constantly changing. A small number of the associations that were still registered with the Housing Corporation appeared to have lost their separate identities altogether and had become amalgamated into larger associations. Others were clearly identified in their literature or web sites as part of a larger group. During the course of the survey we became aware of a number of new mergers that were taking place but which were not yet completed.
- A.1.9.** In total, associations included in the survey population were members of 66 separate housing association groups. The largest of these groups in terms of the number of small to medium sized housing associations that were affiliated to them was London and Quadrant Housing Trust with eight smaller associations in the group that were identified on the Housing Corporation schedule. A2Dominion and the Riverside Group each had six smaller associations within their structure, while The Guinness Partnership had five.
- A.1.10.** Size does not appear to determine whether or not a housing association is part of a group structure – there were housing associations that either were or were not part of a group structure right across the size range. However, on average, associations that were part of a group tend to be larger than those that were not (Table A.2).

Table A.2: Size distribution (homes in management at 31 March 2007) of housing associations that are not part of a group structure and those that are part of a group structure (Inter-quartile range)

Status	25% Quartile	Median	75% Quartile	n =
Not part of a group	434 homes	852 homes	2,337 homes	201
Part of a group	848 homes	1,860 homes	3,418 homes	152
All associations in survey population	505 homes	1,188 homes	2,875 homes	353

A.1.11. Figure A.2 compares the size distribution of those housing associations that are part of a group structure with those that are not.

Figure A.2: Size profile of housing associations that are part of a group structure with those that are not (number of self contained dwellings in management at 31.03.07)



A.1.12. The differences in size might indicate one of two things – either that larger housing associations are more likely to join a group than smaller ones; or that once they have joined a group, associations tend to grow more quickly. Both scenarios are possible and we have looked for evidence in our analysis of the survey results to establish why housing associations in groups tend to be larger.

## The survey

- A.1.13. We carried out the survey using the online internet facilities provided by SurveyMonkey<sup>12</sup> rather than a postal questionnaire for a number of reasons:
- I.13.1. survey design and piloting can be done online quickly and easily;
  - I.13.2. the system is flexible and scalable, and allows for up to twenty different question formats;
  - I.13.3. the system is easy for respondents to complete, and they can complete the survey at more than one sitting provided that they log on with the same PC each time;
  - I.13.4. results can be viewed in real time as the survey progresses;
  - I.13.5. it is possible to browse individual responses or view reports online, or download responses and reports as Excel or PDF files.
- A.1.14. Our original intention was to invite housing associations to take part in the survey through an email campaign using SurveyMonkey's partner company MailChimp. However, MailChimp declined to handle the campaign on the grounds that our mailing list was provided by a third party, the Housing Corporation, rather than from our own direct contacts with individual associations. It was stated that this infringes Federal US laws on spam. We therefore switched the email campaign to an English company, Charity.eMail<sup>13</sup>, whom we found responsive and flexible.
- A.1.15. Once the survey was set up in SurveyMonkey, we emailed chief executives in the survey housing associations informing them of the background to the survey and its rationale, and invited them to take part. A direct link to the survey webpage was embedded in the email, as well as links to the Housing Executive and North Harbour Consulting websites.
- A.1.16. During the course of the survey we sent out reminders by email, answered a number of individual queries, and finally conducted a telephone campaign to around 250 housing associations in the last ten days of the survey to encourage a higher response rate. Once the survey was complete, we downloaded results in Excel and analysis proceeded in the conventional manner.

## Survey Response Rate

- A.1.17. Out of 353 registered housing associations with whom email contact was made or attempted, 79 (22.4%) took part in the survey. The survey questionnaire was quite demanding and not all those associations that started the form actually completed it. We have complete responses from 49 associations (13.9%). Associations with fewer than 499 homes in management were slightly more likely to take part in and complete the survey than larger associations (Table A.3).

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<sup>12</sup> <http://www.surveymonkey.com/> SurveyMonkey is an online survey tool is used by more than 80% of the USA's Fortune 100, by the Department for Communities and Local Government in the UK and other agencies, as well as by complete novices.

<sup>13</sup> <http://www.charityemail.co.uk/>

Table A.3: Response rate (number and %) by size of association

Size of association	Started survey		Completing survey	
	Number	Percentage	Number	Percentage
251 – 499 homes in management	22	25.0%	14	15.9%
500 – 999 homes in management	16	22.2%	11	15.3%
1,000 – 4,999 homes in management	41	21.2%	24	12.4%
All responses	79	22.4%	49	13.9%

A.1.18. Associations that were part of a constitutionally-based group structure had a higher non-response rate than those that were independent. This was true across the size ranges (Table A.4).

Table A.4: Non-response rate (number and percentage) by associations that are not part of a group and those that are part of a group

Size of association	Part of a Group		Not part of a Group	
	Number	Percentage non-response	Number	Percentage non-response
251 – 499 homes in management	17	77.3%	49	74.2%
500 – 999 homes in management	21	87.5%	35	72.9%
1,000 – 4,999 homes in management	87	81.3%	65	75.6%
All responses	125	81.7%	149	74.5%

A.1.19. On further analysis, however, we discovered that in only one instance did we get more than one response from associations clustered within a housing association group structure. In most cases where there was a response from an association that was part of a group, the questionnaire was completed once on behalf of all the group's smaller members. When this is taken into account, the overall response rate improves to 29.6% of associations starting the survey, and 18.4% completing it. The non-response rate for members of a group structure falls as a consequence to 51.5%.

A.1.20. A number of reasons were given by associations for not taking part in the survey. Senior managers told us that they are asked to take part in a large number of surveys which, when taken with regulatory returns to the Housing Corporation and the Audit Commission, impose a significant burden on their time. A small number of mainly smaller associations who read through the online questionnaire said that it was too long, not all of it was relevant to them, and that it required them to collect information from a number of different departments. Most of those who gave their reasons for not taking part nevertheless appeared to be well disposed towards the survey, although a small number of respondents said that they could not see the relevance for them of completing a survey for the Housing Executive.

## Profile of associations responding to the survey

A.1.21. Almost half of the housing associations that responded to the survey provide general needs housing for rent, one third provide special needs housing<sup>14</sup> for rent, and there is some overlap of housing associations that provide both types of accommodation.

**Table A.5: Number and percentage of associations by type of accommodation provided**

Type of association	Number	Percent
Provide mainly general needs housing for rent	34	42.5%
Provide mainly special needs housing for rent	12	15.0%
Provide general needs and special needs housing for rent	14	17.5%
Provide low cost home ownership housing (LCHO)	0	0.0%
Local authority stock transfer association	15	18.8%
Other of which:	5	6.3%
Associations housing mainly people from ethnic minorities	1	
Associations providing all or most of the categories of housing listed above	4	
<i>Total number of responses (n')= 80</i>		

A.1.22. We asked associations about their constitutional status as this is sometimes relevant to their borrowing and investment powers. More than half the respondents said they were registered charities but there was a lack of clarity in some responses about whether they were also companies limited by guarantee or Industrial and Provident Societies. Both types of organisation may register as a charity, but companies limited by guarantee may not also be Industrial and Provident Societies. These responses are therefore not thought to be an entirely reliable indication of constitutional status.

**Table A.6: Number of percentage of associations by type of constitution**

Type of constitution	Number	Percent	Responses to question 'n' =
Registered charity	43	60.0%	71
Company limited by guarantee	31	50.0%	62
Industrial and Provident Society	56	74.7%	75
Other	2	7.0%	55

<sup>14</sup> In the Housing Corporation definition, the term 'special needs housing for rent' includes all forms of housing that are eligible for Supporting People Grant, plus extra-care schemes or specialist residential care.

A.1.23. There was an even geographical distribution of associations by Housing Corporation region (Table A.7). There was also a fairly even mix of associations working in different types of area, ranging from inner city to rural areas (Table A.8). This is reassuring as the conditions for development vary widely in different parts of the country, and responses to the main part of the survey are therefore likely to be fairly representative of England as a whole.

Table A.7: Geographical distribution of respondents by Housing Corporation region

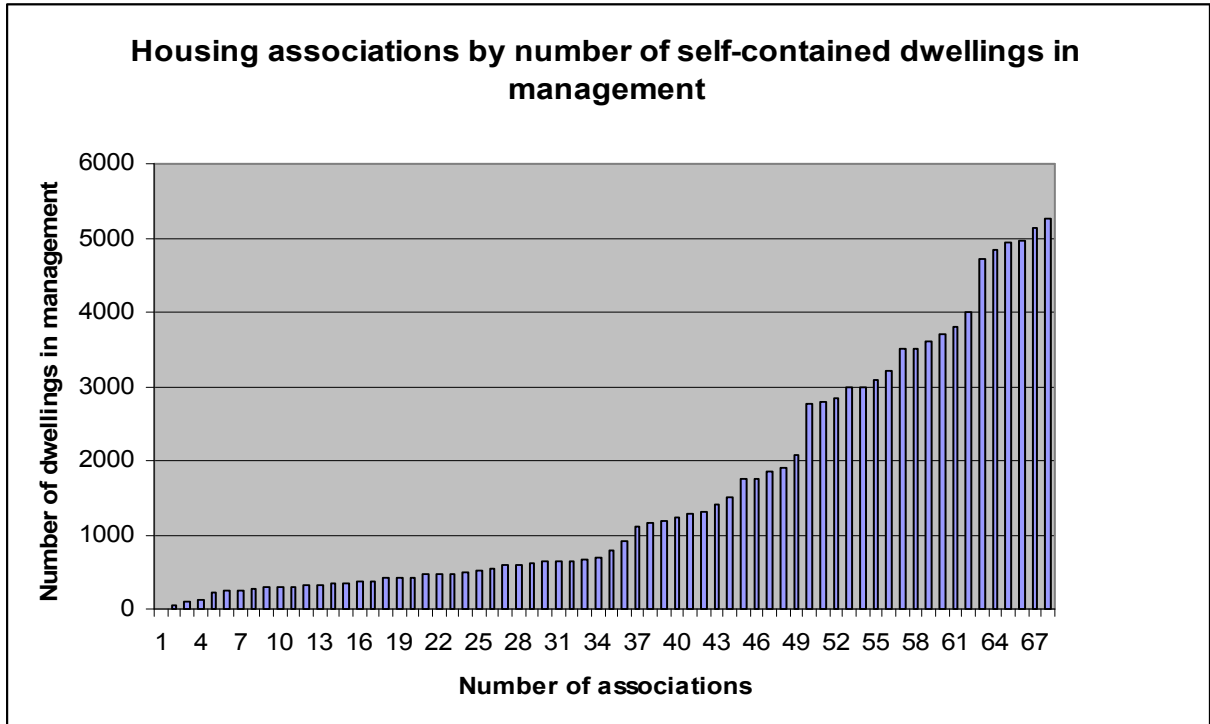
<b>Region</b>	<b>Number</b>	<b>Percent</b>
North	17	21.8%
Central	15	19.2%
London	14	17.9%
South East	14	17.9%
South West	11	14.1%
More than one region	7	9.0%
<i>Total number of responses ('n')= 78</i>		

Table A.8: Distribution of associations by type of area

<b>Type of area</b>	<b>Number</b>	<b>Percent</b>
Inner city area	22	28.9%
Suburban area	11	14.5%
Other urban area	5	6.6%
Rural area	11	14.5%
Mix of areas	27	35.5%
<i>Total number of responses ('n') = 76</i>		

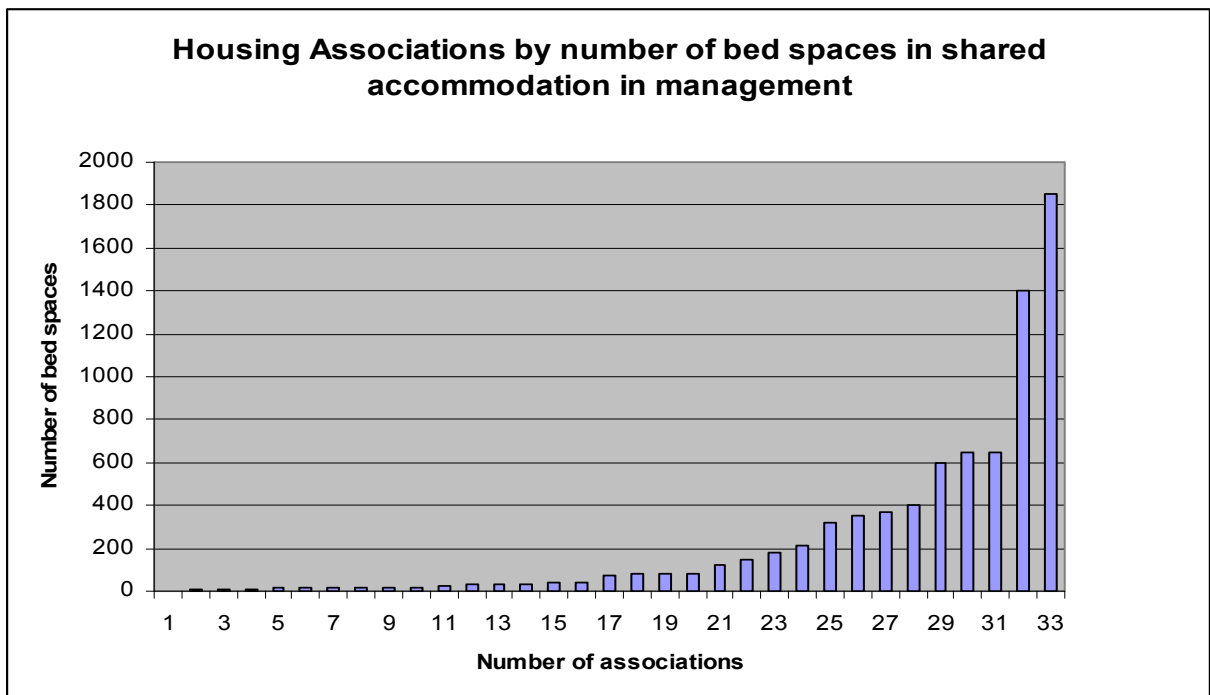
A.1.24. Figure A.3 charts respondent associations by size in terms of the number of self contained dwellings in management. 71 associations reported self contained accommodation in management. However, four responses were omitted from the analysis because the respondent gave the number of self contained dwellings in management for the group, not for the association in whose name the response was made. This reduced the number of associations reporting number of dwellings in management to 67. In two cases, development programmes had increased the number of dwellings in management to more than 5,000 since the March 2007 Housing Corporation figures were published.

Figure A.3: Distribution of associations by number of self contained dwellings in management



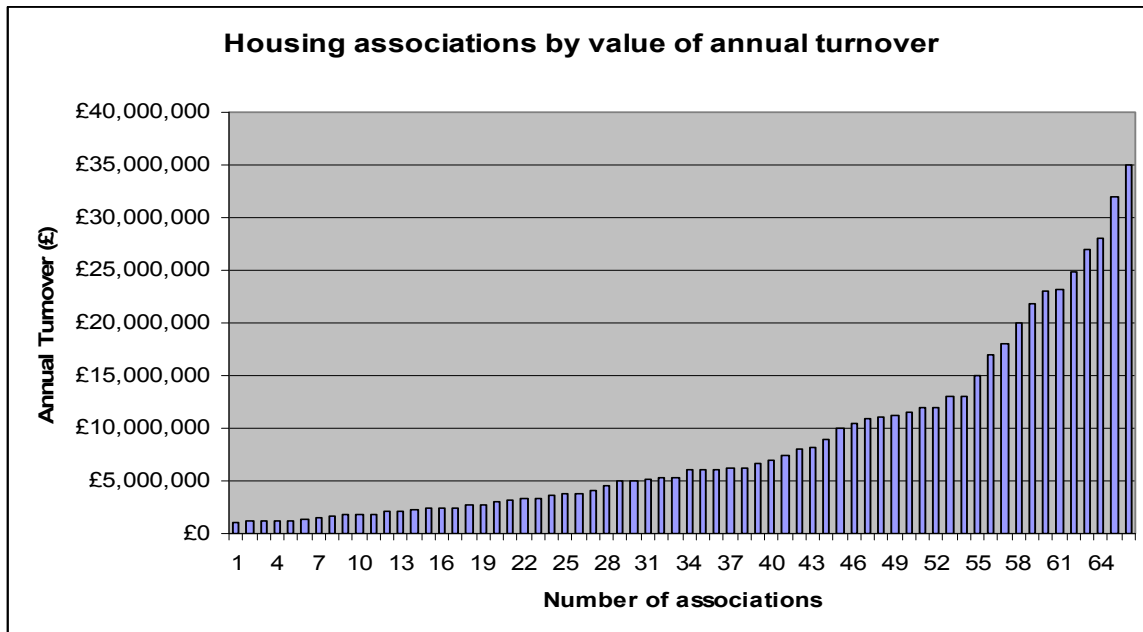
A.1.25. Figure A.4 charts respondent associations by the amount of shared special needs accommodation they have in management. 33 associations reporting bed spaces in management (49.3% or all respondent associations). Of these, two associations had no self-contained accommodation. 30 associations (44.8%) reported a combination of self-contained and bed-space accommodation.

Figure A.4: Distribution of associations by number of bed spaces in shared accommodation in management



A.1.26. Associations were asked to tell us about their annual turnover to give an alternative perspective on their size. 70 associations responded to this question. Four associations gave the turnover for a group as a whole and have been omitted. The number of responses included in Figure A.5 is 66. The majority of associations (83%) have an annual turnover of £15 million or less

Figure A.5: Distribution of associations by annual turnover (to the nearest £250,000)



A.1.27. We also asked about the value of their housing stock (Figure A.6). 60 associations responded to this question. Four associations that reported the value of their group’s housing stock were not included in Figure A.6.

Figure A.6: Distribution of associations by housing stock value (to the nearest £250,000)?

