Transformative transfers: growing capacities in UK social housing

Inquiry into affordable housing industry capacity

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Acronyms and abbreviations used in this report

AHURI	Australian Housing and Urban Research Institute Limited
ALMO	Arms-Length Management Organisation
DCLG	Department for Communities and Local Government
DLO	Direct Labour Organisation / Workforce
ENHR	European Network of Housing Research
GFC	Great financial crisis
GHA	Glasgow Housing Association
HA	Housing Association
HAG	Housing Association Grant
HC	Housing Corporation
HCA	Homes and Communities Agency
LA	Local Authority
LIBOR	London Interbank Offered Rate
LSVT	Large Scale Voluntary Transfers
MBO	Management buyout
NFP	Not-for-profit
NHF	National Housing Federation
NIFHA	Northern Ireland Federation of Housing Associations
NI	Northern Ireland
NIHE	Northern Ireland Housing Executive
PEP	Priority Estates Project
RPI	Retail price index
RTB	Right-to-buy
SHG	Social Housing Grant
THFC	The Housing Finance Corporation
TUPE	The Transfer of Undertakings (Protection of Employment) Regulations
VAT	value-added tax
VFM	Value-for-money
WW1	World War I

Glossary

Affordable housing: A dwelling available through a housing assistance program that provides for a specified level of below market rent price (e.g. public housing, community housing, National Rental Affordability Scheme, shared equity scheme for home ownership). In the UK the term 'social' rental housing is more widely used to cover all non-market housing, that is public and housing association rented homes.

Right-to-buy: The 'Right-to-Buy' scheme is a policy introduced in the United Kingdom in 1980 (updated since 1 August 2016 with the exception of Scotland, where it is now being abolished) which gives secure tenants of councils and some housing associations the legal right to buy, at a large discount, the home they are living in. There is also a 'Right to Acquire' for assured tenants of housing association homes built with public subsidy after 1997, at a smaller discount. About 2.5 million homes in the UK have been sold in this manner since 1980.

Arm's-length management organisation (ALMO): A housing company that provides housing services on behalf of a local authority. The ownership of the housing stock stays with the local authority.

A list of definitions for terms commonly used by AHURI is available on the AHURI website www.ahuri.edu.au/research/glossary.

Executive summary

Key points

- This report is part of the research program in the AHURI Inquiry into the Australian affordable housing industry. It is based on interviews with more than 40 British sector experts. It explores the capacities required to create successful non-profit housing providers through public housing transfers in the UK and the roles that policies played in the process. The research used a framework which differentiates five dimensions of capacity (Glickman and Servon 1998) and adopts an evolutionary perspective on non-profit housing providers as capacities change through the policy design process, in a 'settling-down' post-transfer period, in a consolidation period (up to a decade), and when a mature provider.

- Although there are significant differences in Australia and the UK, there are sufficient similarities in operational processes and policies to provide relevant insights for potential stock transfer policies in Australia.

- Stock transfer, from municipalities to housing associations, has radically transformed British housing systems and their outcomes, arguably for the better, over the last three decades. Public housing stock transfers involve housing assets and land, and other property, tenants, communities, neighbourhoods and often included linked transfer of staff.

- Stock transfer has to be seen in the context of local political settings where non-housing outcomes of transfers, and even strong values being placed on the ideology of public ownership, may be key to political decision-taking. This is reinforced where transfer is seen as an attempt to put the 'consumer' interest of tenants ahead of the 'producer' interest of the 'state' and its employees. In the UK (with a few exceptions) a majority of tenants, in a formal ballot, had to agree to transfer before assets could be transferred

- Recognising that the 'affordable housing industry' is more than just the entities that deliver housing services, our framework extends beyond the capacities of 'provider' organisations to also consider the capabilities that governments have to influence and regulate non-public providers in the supply chains operating within local housing systems.

- The research found that assets and capabilities are there to be developed as well as managed. There are multiple interests both in disposing and receiving organisations and electoral, community and trade union politics that shape not just whether transfers take place, but also the nature of organisations formed. Consultants play key roles in informing transfer proposals and subsequent organisational developments. Transfer also changes the nature of local housing systems and creates capabilities that may be important to delivering wider government policy aims.

Key findings

UK stock transfers: different context, similar questions?

This report reviews the capacities that have facilitated the successful performance of non-profit providers in receipt of transfers of housing formerly owned by public authorities in the UK.

Public housing, largely owned by municipalities, has played a major role in housing policies in the UK since 1919. By 1939 council housing comprised a tenth of British homes and from 1953–75 was expanded as a central pillar of the welfare state and by the end of that period it comprised close to a third of housing provision. Since then, housing associations have been favoured in the funding for the provision of non-market housing and policy priorities have shifted to promoting home ownership. The right-to-buy (RTB), given to tenants in 1980 accelerated the absolute and relative decline of council housing in Britain and that process continues, although it has just been ended in Scotland. The scale and share of the public housing sector varies sharply from region to region and, since 1997, the devolved administrations of the UK (in London, Scotland, Northern Ireland and Wales) have adopted significantly different policy approaches to the sector from each other and from the UK government in un-devolved England.

After 1990 transfers of tranches of public housing stock to other landlords, particularly non-profit providers, accelerated the contraction of public housing. Stock transfer, as the process has been termed, has a long history in Britain, stretching over three decades to 2015. It has also been diverse, involving at least 1.5 million homes and 149 public authorities, and embracing municipal and other providers from the Western Isles of Scotland to boroughs in central London. The report pays particular attention to Scottish Homes and the Northern Ireland Housing Executive as two large non-municipal public agencies with that operated beyond municipal boundaries, over state-like regions, and have strategic-enabling as well as landlord functions. Despite the different context and history this review of UK experience generates important questions for those considering stock transfers in Australia.

Success, non-profits and capacities

The review confirmed that the capacities created through stock transfers have significantly raised the overall capability of the UK housing system to meet housing needs, and to respond flexibly and creatively to change. All our interviewees agreed that the operating environment for housing associations (HAs), even prior to the new uncertainties occasioned by the Brexit vote, has become more difficult in recent years with the last two years having been particularly challenging. Yet there is no sense of imminent collapse or contraction of the sector. Well-managed, risk-aware, diversified and hybrid housing providers may be able to play key roles and meet demands and needs that would be difficult to achieve through housing owned within the public sector, even when managed at arms-length.

Nonetheless, key experts interviewed believed that non-profits were not always well-prepared, or ready, to receive stock transfers. Sometimes this was attributable to demanding political and ballot processes. It was also, on occasion, attributable to underestimating the challenges of and capabilities required for change. In particular, transfer is not an economically neutral shift. Homes, on transfer, are relocated from the control, finances, security, allocation regimes and ethos of the public sector. They become assets within a different system of values (e.g. consumer as opposed to producer interest), community commitments, risks, capabilities, financial sources, subsidies and scoping of roles. In so doing, their value and potential roles, and not just the ways in which homes will be managed and maintained, will alter.

The structures, constitutions, cultures and staffing of many non-profit housing providers in the UK have formed and developed capacities to both manage stock better and take emerging housing, and related, development opportunities more readily than public providers locked into the politics, financial constraints and cultures of the public sector? Remarkably, the potential

integrative, innovative and new investment capacities of associations considerations were almost completely absent in government views and assessments in the development of English transfers. Governments, and not just municipalities ideologically opposed to the idea, have often failed to understand the transformative potential of transfers.

Australian material on stock transfers contains minimal discussion of the capacities of non-profits to transform local rental sectors or their strategic fit within fast growing metropolitan markets. Stock transfer, as in the UK, is primarily presented as the cost effectiveness of managing small groups of homes for low-income households. UK experience suggests the need for a more strategic, system wide understanding of stock transfer consequences.

A number of key sector 'capacity' issues emerged in the interviews. These included:

- Creating an effective 'shadow' organisation in advance of transfer where transfers took place to newly formed associations led by existing managers (or staff) so that the different interests of selling authorities and receiving non-profits would be transparent and separately pursued.

- Where a large public landlord intended to divest substantial holdings over a protracted period of time, there appeared to be merit in developing a series of smaller transfers, including management buy-outs led by tenants and staff; these multi-phased transfers appear to have been less 'political', were often led by community action and formed a basis for learning about how to absorb larger future transfer tranches.

- Capacities of non-profits in key areas were sharpened by transfer bidding and balloting processes that an internal administrative transfer would have been less likely to induce. The processes involved:

  — The development of a coherent business plan that would have to convince private sector lenders, and that required bidders to value stock, identify and cost current and future repair and modernisation liabilities and understand the nature of complex contracts; this constituted in a step change in required management capacity for social housing and the development of an asset management culture that had largely been missing in public housing authorities.

  — 'Acquiring' housing associations having to undertake major communication strategies to publicise their aims and ethos and to develop effective engagement networks not just with their tenants but also with local and national politicians.

  — Successful bidders had to create new human capital management strategies. Few transfers, in setting transfer prices, included a systematic audit and valuation of the human capital involved. Thus, post-transfer, most associations immediately faced significant staffing issues having acquired former public housing staff with entitlements specified under legislation relating to the transfer of public service 'undertakings'. Consequential adjustments by associations acquiring stock and staff involved the need to integrate different staff cultures and expectations, and to develop new skills supplied in the short term by consultants.

- Successful bidders also required access to private finance to support their acquisition and improvement; often they had to make new connections to financial institutions and markets and, in the longer term, develop property acquisition, financing and development skills. They were, at key, early stages of development, reliant on advice provided by market consultants. The vast majority accessed finance from banks rather than from the capital market, and were able to benefit from much government and national agency work to engage the banks, including Australian, Canadian and European banks as major investors in the UK social housing sector. A national 'bond aggregator', the Housing Finance Corporation, was put in place in 1987, and this facilitated access to capital market finance for smaller borrowers. Although the Commonwealth Government now supports the development of a bond

aggregator in Australia it would, in contrast to the major Australian funding institutions, appear to have been remarkably slow to develop, with the States, funding and regulatory arrangements that would allow non-profits to flourish in Australia.

- Acquiring associations in the UK, where tenant ballots were a legal requirement (NI excepted) required strong capacities in engaging tenants and communities. UK interviewees argued that the ballot process had tested the engagement skills of the putative landlords and that was important. Senior staff argued that the education/information/consultation/ processes in the ballot had been critical to a good start for the new landlord; it had given tenants a voice about their priorities that reshaped plans and priorities; and engagement gave the new organisation understanding of and credibility within the community. Tenant ballots are not a legal requirement in Australia, and UK experts questioned whether the views of tenants are given sufficient attention in Australian transfer processes?

- The governance arrangements adopted by non-profits in the UK took an even split of five councillors, five tenants and five independents as the norm (but not the rule). With appropriate training these arrangements worked adequately in early post-transfer years. However, as associations have matured, new challenges and board capacities have become required in many instances.

Last, but not least, there has been a significant evolution in the scales, roles and resources of many of the non-profits formed by, and otherwise participating in, UK stock transfer. Few have failed, and when they have done so they have been absorbed by successful, growing associations. As their human capital capacities have expanded, most have grown and diversified. Some have bid for further small scale transfers, others have pursued activities focused on place-making (e.g. developing credit unions, supporting tenant employability) or expanding complementary housing functions such as mid-market rental provision, strata management and promoting low cost home ownership. They have often given an integrated social entrepreneurship to community-facing renewal that the silos and cultures of public housing systems can find difficult. Effective management of their cash flows has created surpluses and rising asset values have allowed new opportunities to emerge. Housing associations, some originating in stock transfers, have been willing partners in extracting planning and infrastructure gains in rising housing markets, essentially de-risking the investments of private builders.

Viewed in this light, partly through the associated building of industry capacity, stock transfers have contributed significantly to a new housing sector that has been innovative and creative in meeting new housing policy goals despite government grant cuts. The capacities created through past stock transfers have enhanced the capability of the UK housing system to respond flexibly and creatively to shocks and changes. Seeing stock transfers as a basis for long-run system change, with a diverse set of costs and benefits to be considered, seems to be a broader perspective than has generally prevailed in Australia. Some states, driven by finance interests, seem to look at these issues as a property owner and speculator, rather than as a government concerned with shaping an effective or fair housing system for lower income households. The diverse range of significant outcomes from change requires selling landlords to establish organisational arrangements for transfer evaluations and disposals that are insulated from the 'producer' interests of existing housing management staff. This separation of interests seems to be somewhat unclear in a number of Australian states.

In shaping transfers, governments should ask hard questions about the kinds of organisations that Community Housing Providers receiving stock currently are but also understand how they will evolve and contribute to future functioning of the housing system. Equally, non-profit providers need to consider that a major source of future risk is as likely to be the government as the capital market. UK experience emphasised the importance of governments having a stable, long-term vision ideally based on a bipartisan foundation, coherent and clear strategies for stock

disposals and also to have clear operational criteria and policy delivery mechanisms. The chequered progress of the non-profit sectors in all parts of the UK in recent years in consequence of policy inconsistency and (in England) incoherent strategy, makes all too clear the importance of the policy framework that prevailed from 1988–2010. In essence, Australia has, in this millennium, lacked coherent and stable policy frameworks for the development of non-profit providers both at Commonwealth level and in most states.

Lessons for bureaucracies

Much that is written about UK housing stock transfers focuses upon Large Scale Voluntary Transfers (LSVTs) from municipal landlords to non-profits. The design of LSVTs focused upon the capital, cash flows and services associated with meeting specified management and maintenance standards over a 30-year future. This oversimplifies the nature of many transactions. It pays too little attention to how transfers could transform both housing system functioning and the future trajectory of housing providers. Stock transfer usually involves not just rented housing assets and management obligations but may also encompass other assets such as land and non-residential property. There is commonly a linked transfer of staff. Social, human and other capital assets, and not just homes and housing services, are involved in transfer processes and outcomes. Further, as public housing is, by definition, a creature of government, there may be strong political values placed on who owns rented housing. In stock transfer policies, politics arise in relation to representative local democracy, the participative democracy of community action and trade union interests.

Two key findings therefore emerge from the above:

1 There is no simple checklist of required capacities for stock transfer success that will be everywhere and always relevant and effective.

2 Governments, both in framing policies and in disposing of stock, require the strategic capacity to assess the wider impacts and to clarify and separate the interests of consumers (tenants), producers (state housing bureaucrats and politicians) and taxpayers.

In the UK, at national and devolved government levels (Scotland, Wales, North Ireland and London) the significance of stock transfer policy has now significantly receded. Interviews for this review exposed the absence of institutional memory within government on stock transfer policies—part of a very stark reduction in wider analytical capabilities and housing policy knowledge. It is clear, in most of the UK, that governments no longer retain the intellectual capital required to run such processes. There is a worrying lack of government knowledge of the systems it has created. Such appreciation is now largely the preserve of non-profit leaders, seasoned consultants and applied researchers.

In Australia, with little experience of stock transfer and with governments subject to a wider 'hollowing out' of policy expertise in the housing realm, urgent attention should be paid to the capacities of state political and administrative systems to formulate and implement social housing reform. Housing officials and responsible ministers can face a conflict of interests in these assessments of alternatives, and it is highly doubtful that there is adequate institutional capacity to pursue these issues effectively.

In the UK, 'higher' orders of government (national and devolved administrations) both had major roles in setting out clear 'rules of the game' in relation to the aspects of transfers for which they had policy autonomies. That included, for instance, consistent definitions of public expenditure, how social housing assets should be valued, the ways in which taxes are exempted (VAT in the UK for instance), the design of social security supports underpinning non-profits' rents, legislation to protect employees in the transfer of undertakings (known as TUPE in the UK), legislation on non-profit and charitable status, and the regulation of the financial sector and construction sectors. In Australia this would require a systematic auditing of how Federal Government policies impinge on state actions re transfers.

The review suggests that the impacts of transfers in particular localities depend on the capacity of non-profits to absorb substantial bundles of transferred stock. As larger, experienced entities developed in the UK, this process became less difficult and more clearly contestable. However, at the outset of the process, the creation of new non-profits and their 'fostering and mentoring' to become sustainable organisations was a crucial role for government agencies as was the low profile encouragement of stock transfers between non-profits, through mergers, to facilitate scale economies. The extent to which governments recognise non-profit sectors in some places as an 'infant industry' and provide a supportive framework is critical in shaping absorptive capacity. The now-resilient UK sectors were 'birthed and nannied' by national level agencies, especially the Housing Corporation and Scottish Homes, each also playing a vital role as a repository of strategic housing policy-making capacity. This has been very important and it is appropriate to ask who does this in Australia? Who champions the sector, who raises its contestability and sustainability capacities?

Lessons for politicians

Political competence and leadership was critical in shaping UK transfer bids that were acceptable to tenants as these always required tenant ballot approval. However, Ministerial actions were relevant to longer term success; for instance, relatively uncontentious ballots allowed non-profits receiving stock to concentrate on real planning issues rather than local politics and the terms and scales of stock transferred (single or multiple transfers) also impacted capacities to absorb transfers.

- At the national level, in the UK, there was a general consensus in favour of stock transfer across the major parties from 1990 to 2010. At the same time, there was evidence that many politicians, particularly at the local level, did not grasp some of the critical issues involved. Some regarded transfers to associations as damaging 'privatisation' and failed to see their accountabilities to local and national governments through contracts, regulation and funding arrangements. Many politicians had little regard to possible future roles and were reluctant to transition their own roles from 'provider' to enabler.

- In Australia, the question arises as to whether there is sufficient cross-party consensus on transfer as a policy direction or, alternatively, whether there are sufficient institutions and incentives embedded within the policy system to ensure a longer term perspective on how social housing can evolve. Infrastructure Australia gives some heft to longer-run proposals, but there is no equivalent Housing Australia.

For the public landlord making a sale, either a municipality or an agency such as Scottish Homes or the Northern Ireland Housing Executive (NIHE), it is clear that transfer requires active seller 'political management' of stock transfer processes. This was particularly the case in the England, Wales and Scotland scenario where tenant ballots are a legal requirement. This required local politicians to:

- Have a capacity to understand the housing and financial pros and cons of stock transfers and stock retention and the UK experience suggests that this capability should not be taken for granted.

- Have a clear story to tell about immediate gains in resources/housing as well as wider and longer term beneficial effects, and this in the UK increasingly became a clear offer about housing standards, renewal and rent trajectories; there had to be a clear offer to tenants, but also to staff.

- Recognise that their employees might not share their transfer vision and be in a position of trust and familiarity with tenants and/or local political critics to frustrate change.

- Accept non-majority roles on the Boards of new not-for-profit providers and contribute to change and the formation of new networks and partnerships. UK experience in these

regards ranged, according to interviewees, from awful, uninterested councillor involvement to strategic and enabling and essential. If housing moves from state to non-profit ownership in Australia, the question arises as to how local, municipal politicians can be appropriately engaged in governance and enabling of social housing providers?

In the UK, in Scotland and England, the national housing agencies spent a great deal of energy and effort developing and revising transfer ground rules. They issued guidance on effective tenant participation and consultation, and on how public housing stock should be valued—an issue on which there is an absence of consistent practice in Australia. Even more importantly, they played key roles in bringing the financial sector and new non-profits into a new alignment that enabled acquiring not-for-profit landlords to take out debt on good terms.

Furthermore, we see that there is a major challenge, wherever transfer takes place, to ensure that political decision-makers have the evidence and support to develop the capacities needed to make 'wider' interest decisions on behalf of all their polity. Is this the setting that prevails in Australia?

The study approach

This report adopts an evolutionary perspective on non-profit housing providers. It looks for the capacities involved during the policy design process, after transfer, in a 'settling-down', post-transfer period (two to five years), a consolidation period of up to a decade, and then continuation as a mature provider often involving significant changes in roles, staffing, resources and governance. Different elements of capacities need to be developed in different stages.

The report is largely based upon interviews with senior housing association staff, government officials involved in stock transfers, key legal and financial consultants who advised in stock transfer processes and policy researchers.[1] The interviews involved those in the process in the 1990s as well as currently. Some 41 professionals were involved in the interviews, 12 in Northern Ireland, 13 in Scotland and 16 in England. Statistical information on the sector was used as a background but no new quantitative analysis was undertaken in this project. Tenants were not interviewed.

The review is intended to inform current Australian debates about and moves towards the transfer of public, state housing to non-profit providers. There is no intention to pick from UK experience specific 'magic bullets' that drove success there and that could do the same in Australia. Rather, the review reports what, in the light of experience undertaking transfers, housing professionals, policy-makers and researchers believe to have been important in shaping successes in particular places for particular organisations. Common issues or themes that emerged are highlighted. The observations in the review are intended to pose relevant questions that those involved in public housing transfers in Australia, including tenants, might ask and answer in their specific contexts.

These observations outline the broad UK context, how much it has changed, and is changing, and how it contrasts with Australia. The stock transfer experience reported here does pose useful questions for Australian states and for not-for-profit providers.

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[1] We would like to record our gratitude to the more than 40 housing sector professionals, government officials and researchers who were interviewed for this study. They all gave of their time and insights generously and had a major effect upon the core ideas and conclusions of this report.

1   Concerns, comparisons and context

This study on the role of stock transfers in the evolution of the UK's not-for-profit housing sector was conducted against the background of growing interest in the possible transfers of Australian state-owned public housing to non-profit ownership and management. While acknowledging the differences in social, economic and political contexts between the UK and Australia, we nonetheless believe that meaningful questions and ideas for Australian policy debate can be achieved by distilling the key issues and patterns emerging from the UK's 30 years of stock transfer experiences.

- First, we believe that housing policies and systems have a strong path dependency; they evolve out of what existed before. The prevailing systems of finance and subsidy, governance, law, tenures and consumer incomes, attitudes and aspirations all differ from place-to-place, and therefore calls for attention to context diversity in designing and evaluating transfers and the capacities needed.

- Second, it is important to have an agency, or powerful group within governments, leading housing system transformation that is not the state public housing organisation for they represent an inevitably 'narrow' producer interest. Stock transfer is a complex and serious issue in housing policies, with 'whole of government' interests, and it requires coherent government efforts to promote effective change.

- Third, it would be a reasonable conclusion that the creation of a housing association sector in the UK has, within budgetary constraints, allowed a larger affordable rental sector to emerge which would not have developed with councils alone, and that the sector has been robust, resilient and innovative in its housing delivery roles. The latter's experience in stock transfer is potentially valuable for Australia.

1.1   Concerns

The major concern of this report is to identify the capacities that have facilitated the successful implementation of public housing transfers to non-profit providers in the UK. Stock transfer, as the process is generally termed, has a long history in Britain, stretching over three decades to 2015. That experience embraces municipal and other providers from the Western Isles of Scotland to boroughs in central London. Transfers have varied in scale from the 2003 transaction involving the handover of 80,000 homes by Glasgow City Council to Glasgow Housing Association to four homes transferred in rural Berwickshire. The report, as noted above, pays particular attention to two large non-municipal public agencies, Scottish Homes and the Northern Ireland Housing Executive (NIHE). Scottish Homes, having transferred all but a few hundred of its homes, was abolished in 2002. NIHE is currently framing proposals to dispose of some or all of the 90,000 units it owns across Ulster.

1.2 Policy context

The possible transfer of state-owned public housing to non-profits has been debated in Australia since, at least, 2002 and there have been a small number of significant transfers (Pawson, Milligan et al. 2015). The purpose of the review is to inform current Australian debates about such transfers.

International and cross-jurisdictional comparisons in housing policies have to be pursued with some caution. Each national or regional housing system has its own particular web of behaviours and institutions and distinctive geographies and histories. Housing systems and policies have considerable path dependencies so that new measures or shocks may impact quite differently in different system dynamics.

This is not to deny the value of drawing-lessons from other countries that have completed or are progressing similar challenging transformations. Carefully drawn lessons are bridges across time and space, informing decision-makers about what works and what won't, and thereby expanding the scope for choice in the domestic policy agenda (Rose 2005). Some preconditions for successful lesson-drawing are worth observing. First and foremost, efficient and effective policy knowledge transfers are underpinned by a deeper and prior process of learning and reflection (Bennett and Howlett 1992), as observations from overseas might require a redefinition of cognition and interests that challenge the established beliefs and ideas (Hall 1988). Secondly, the domestic institutional and structural constraints, as well as bureaucratic and efficiency constraints may set boundaries to the scope of useful learning (Dolowitz and Marsh 1996). It is therefore a good practice to be selective in absorbing what is learned.

There is then no intention in this study to pick from UK experience specific 'magic bullets' that drove success there and that could do the same in Australia. Rather, the review highlights what, in the light of experience undertaking transfers, housing professionals, policy-makers and researchers believe to have been important in shaping successes in particular places for particular organisations. We highlight common issues or themes that emerged. The observations in the review are intended to pose relevant questions that those involved in stock transfers in Australia, including public housing tenants, might ask and answer in the different context of their specific transfers. It is useful, in this introductory chapter to contrast the contexts of public housing and not-for-profit housing systems in Australia and the UK.

Housing policies and systems have a strong path dependency; they evolve out of what existed before. The prevailing systems of finance and subsidy, governance, law, tenures and consumer incomes, attitudes and aspirations all differ from place-to-place. They clearly differ between Australia and the UK. Within the UK, which can no longer be treated, in any informed discussion of housing policy (Maclennan and O'Sullivan 2013), as if it were a unitary state, there are significant differences in law and finance between England and the devolved administrations. Public housing policies differed between these regions/nations before 1999 and have increasingly diverged since. These differences, as will be apparent in the report, are very significant in shaping stock transfer processes and impacts.

Despite differences across regions and devolved administrations in the UK, they have in common a housing history, and still current reality, of public housing provision that is large-scale and intensive, as a share of overall tenures, relative to most other OECD economies. First emerging just prior to WWI, then growing to 10 per cent of homes by 1939, the development of public housing in Britain, after 1953, was a fundamental foundation of the welfare state. Largely driven through municipal provision of public housing, with additional government agencies operating in the most difficult regions such as Scotland, the North of England and Northern Ireland, the share of public housing in the UK rose steadily and peaked, at just under a third of all housing provision, in the late 1970s.

Since then, the council housing share has declined sharply. Rising incomes and strong pro-home ownership preferences have increased that share, but the declining council share also reflects the switching of new capital support to non-profits (by all UK governments since 1978), the imposition of the right to buy (RTB) for the tenants of council housing after 1980 (that has resulted in1.87 million dwellings leaving the sector, via individual transfers, in England between 1980 and early 2013) and of course, transfers of council stock to non-profit providers since the mid-1980s (again supported by all UK governments until 2015). After 2003, the formation of Arms- Length Management Organisations (ALMOs) within municipal housing slowed the transfer of council stock, as they had preferential access to government funds to bring council housing up to required Social Housing Standards. However, in recent years the number of ALMOs (that existed only in England) has fallen from 82 to 61 as earmarked funds are no longer available and this has resulted in stock either being taken back into mainstream municipal management or fully transitioned into not-for-profit control via stock transfers. Although ALMOs have reputedly improved stock management and tenant participation, they have not been able to leverage assets and diversify in the ways open to housing associations. They appear to be a program limited innovation form. In recent years changes to housing accounting rules in the council sector have created some possibilities for council housing investment and more diverse tenure innovations by local companies wholly owned by municipalities. These innovations do not yet exist at scale and are not researched.

Policy attitudes now differ sharply across the devolved administrations. There is now no single UK housing policy and quite substantial differences in approach across the asymmetrically devolved administrations of the UK. The UK Government, responsible for housing in England outside of London, has ceased to encourage further stock transfers since 2010. The same has been true of Scotland post-2008. In Northern Ireland, investment in new public stock has stopped, but RTB has remained much as previously, and there is an active, slow discussion of the possibility of transferring all of the Province's public housing, currently owned by a single landlord (NIHE) to the non-profits sector.

The non-profit housing sector in the UK had its historic roots in the alms-houses of the 13th century and more recent precursors in the philanthropic and 'working men's dwelling companies' of Victorian Britain. It was the, then, well-organised nature of UK municipal governments, with their access to local property taxes that led British governments, after 1919, to provide 'homes for heroes' in the municipal rather than non-profit sectors and, as described above, build homes for the welfare state. Housing associations, the main form of non-profit (various types of cooperatives and development trusts also exist but are small in scale), had few policy roles into the 1960s until it was recognised that a 'third sector' might play roles in providing cost-rental housing in areas of housing shortage. By the 1970's the supervisory and funding framework of the Housing Corporation saw associations take important roles in providing 'special needs' housing and in housing rehabilitation (especially in Scotland), see Maclennan, Brailey and Lawrie (1983), but there was no sense, prior to the mid-1980s, of the support of an alternative to council housing.

Perhaps of particular relevance to Australia, given the still somewhat embryonic state of its not-for-profit housing sector, is the UK experience of building housing association industry capacity in the 1970s and 1980s when government (through the Housing Corporation) and the industry (through the National Federation of Housing Associations) engaged in ambitious and innovative capacity-building activities (McDermont 2010). One particularly exotic gambit aimed at upscaling leadership capacity within the sector involved the coordinated central enrolment of a number of dynamic figures dubbed 'the flowerpot men' for installation as founders of fledgling housing associations earmarked for growth. This was about 'transplanting talent from outside housing to help the newly invigorated housing association [sector] to grow' (Lockwood 2014).

It is important to recognise that stock transfers in the UK, from public housing owners to non-profits, grew significantly in scale after the housing association sector had been well established with national regulatory and financial support for almost 20 years (after 1974). Although existing housing associations were recipients of significant numbers of homes in small-scale transfers, the more significant driver of change was the transfer of public housing to housing associations set up specifically in local areas to receive stock transferred. Thus council leaders and senior housing staff often had significant roles in the establishment and nature of these new organisations.

The contestability of council providers and housing associations emerged after 1985, when councils still provided a third of homes in the UK and associations some 2 per cent. It was widely argued that housing associations were more effective housing managers and better at engaging tenants than municipalities. Councils countered that they had more difficult contexts and clients to manage. The Maclennan, Clapham et al. Report (1989) rejected, on empirical evidence, both of these propositions. By the end of the 1980s associations were widely meeting general housing needs and their client profile had converged with that of councils. As for performance, effective management performance existed, somewhat patchily, in both sectors but was not driven by the cultures or financial systems of either sector.

In 1989 new legislation that provided ex ante grant subsidy to associations (housing association grant or HAG) was provided by the Housing Corporation to support associations' investment (and typically ran at 50 to 60% of approved project costs until after 2008) with the residual finance requirement raised from private lenders. This off-public balance sheet position for association borrowing was (until October 2015, in England) a major incentive for government to fund affordable housing programs through associations rather than the 100 per cent public expenditures of council entities. In very broad terms, the two decades 1988 to 2008 saw associations displace councils in new rental development programs and it was a small step for governments to embrace the notion that tranches of council housing could be transferred, as stock transfers, to the association sector.

It is important, when contrasting Australia and the UK to recall both the large scale of the social housing sectors involved (with almost every major city in the UK with 50 per cent of non-market homes as late as the 1991 census) and of the major government efforts to develop a sustainable, effective association sector before stock transfers were significant issues. The Housing Corporation has no equivalent in Australia and it was the key to the UK stock transfer process. After 1988, the Housing Corporation operated only in England, its powers passed to Scottish Homes in Scotland (and it also inherited 96,000 public housing units), Tai Cymru held sway in Wales, in Northern Ireland powers over the sector were not passed to NIHE but retained within government. In due course, Scotland and Wales also took powers back into government and in England the Homes and Communities Agency (succeeding the Housing Corporation in 2008) has had its powers, budgets and policy roles sharply curtailed since 2010. The lesson from this experience could be seen as being that it is important to have an agency for housing system transformation that is not the municipality when major phases of curtailment of public housing are involved. Stock transfer is a complex and serious issue in housing policies and it requires government efforts to promote effective change.

Housing associations are diverse in size and structure but defined in contrast to public providers, they are non-government owned, they have the aim of being non-profit distributing (they can make surpluses but they must be used for the agreed public and social purposes), they are registered as non-profits, the majority are also registered as having charitable status, they are largely governed by voluntary boards (though some English associations now pay board members). They have agreed non-profit purposes, and this is usually focused on the provision of rental housing at below market rents. They may also have profit and non-profit

subsidiaries to pursue other activities though these subsidiaries have ring-fenced accounts and separate boards.

These broad organisational features enable Housing Associations (HAs) to register with the regulatory bodies (in the different devolved administrations) in order to access public funds. Policy priorities, grant rates and total budget changes have diverged significantly across the devolved areas of the UK since 2010.

There are marked contrasts in scale, and the largest 20 associations now own approximately 4 per cent of the housing stock in the UK. There remains a significant, if reducing, number of small local associations. In broad terms there are three classes of associations. 'Nationals' operate across Great Britain (but not in Northern Island (NI)), and typically range from 30,000 to 85,000 units, 'Regionals' range from 5,000–20,000 and operate in rural regions or in different municipalities within a metropolitan area. 'Local' associations, with 500–3,000 units, typify provision in Scotland and NI. Many 'local' associations no longer have active development programs.

Large numbers of HAs have, since the late 1990s, provided other 'wider' or 'housing plus services' besides housing, such as social care, community development and regeneration; and after 2000 they have increasingly provided market rent housing and home ownership options alongside their social rented housing (Mullins, Czischke et al. 2012). In England, the *Housing Act 2004* enabled the Housing Corporation to pay Social Housing Grants direct to private bodies, thereby eroding the advantage conferred by non-profit status, which in turn further blurred the boundaries between HAs and for-profit sectors.

Nonetheless, the majority of HAs retain some of the key features and their role in providing and managing social housing has clearly survived the Great Financial Crisis (GFC) and, so far, looks set to negotiate the troubled post-Brexit times of the UK economy. By 2015, £80 billion of private finance had been borrowed by UK housing associations, many associations have continued to grow and diversify and there have been few instances of associations, or indeed their subsidiaries, encountering near bankruptcy. All of the few difficult cases that have emerged in the last decade were absorbed by growing associations. Critically, through this period, the rate of grant subsidy required has steadily fallen (England only) from over 50 per cent to under 15 per cent.

1.3 Recent features and existing research

Two caveats are important for Australian readers. First, in England there has been a switch in grant funded output over the period 2010 to late 2016 from truly social housing to 'affordable' housing at 80 per cent of market rents (requiring lower per unit subsidies). Second, 'Housing Benefit' subsidies have been available to tenants in all rental sectors in the UK. Increasing rents in the association sector, facilitating association investment, were met by housing benefit 'taking the strain'. Since 2010, welfare reform and government unwillingness to continue to take the strain has resulted in a range of housing reforms that have constrained the ability, especially of households aged under 25, to access association properties and private lenders now see government policy positions as one of the major risks facing the sector.

Despite these caveats, it would be a reasonable conclusion that the creation of a housing association sector in the UK has, within budgetary constraints, allowed a larger affordable rental sector to emerge which would not have developed with councils alone, and that the sector has been robust, resilient, entrepreneurial, and innovative in its housing delivery roles. With respect to this study, the key question is whether or not stock transfer associations have performed in a similar fashion to the sector as a whole. They have different origins, roles, funding and staffing structures from new development entities, at least when they are created. Have they contributed to the sector's success?

The dramatic restructuring of the UK social housing sector in the two decades from 1988–2008 is evident in the shares of provision of social sector housing. In 1988, around 90 per cent of UK non-market housing was held by councils. By 2008, councils provided 24 per cent directly and their ALMOs a further 23 per cent. However, housing associations were the majority providers, with 'traditional' housing associations owning 27 per cent and stock transfer housing associations 26 per cent. In Wales and Scotland, where ALMOs had not been created, the figures were 42 per cent and 45 per cent respectively. Such high shares of sector ownership by non-profits have grown even further to 2014–15. In the most recent year of official data, the social rental sector owns 17.3 per cent of homes in England (down from 31% in 1980). However, associations now provide 10.1 per cent of English homes and councils 7.2 per cent. These figures make clear the importance of housing stock transfers from the public sector to associations in reshaping UK housing. They now comprise almost a third of the non-market sector stock. Pawson and Mullins (2010: 57) were correct in claiming that HAs had become the dominant new social landlords in Britain. At the same time, it is worth noting that in 2011–12 the English private rental sector outstripped, for the first time in half a century, the scale of the total social rental sector.

1.3.1 A variety of approaches

Housing stock transfers in the UK have not only involved large shares of the public housing stock but they have varied significantly in character, not just in seller motivation, and scale but in the proportionate shares of local stock. The first stock transfers generally occurred in prosperous suburban municipalities in southern England (East Chilterns was the first) as councils recognised that through stock sales they could both avoid their local tax contribution to public housing accounts and receive a substantial capital receipt from sales.

This was in marked contrast to later transfers in large, poorer metropolitan areas facing rising rents and repairs crises and that basically required central government to write off residual debts. The Glasgow housing transfer (Maclennan 2014) required a Treasury dowry of close to a £1billion to facilitate that most difficult of transfers. These were LSVTs and, as noted above, there were close to 150 of them in the UK. However, there were also significant transfers of rundown estates from councils to associations as part of renewal strategies that were referred to as partial stock transfers. Glasgow, for example, had transferred 14,000 council homes in that way to more than a dozen associations before its LSVT took place. Some non-municipal public housing transfers, such as the creation of North HA near Newcastle and the Scottish Homes transfer were examples of how willing public sellers could facilitate major, significant changes because they believed that community-led non-profits were a preferred form of provision to municipal monopolies.

Pawson and Mullins (2010: 41–47) distinguished four types of transfers in the UK context. The majority of transfers have taken the form of *whole stock transfer*, and it was normally a 'one-to-one' relation where the complete housing stock of the LA was transferred by the municipal seller to a single HA, which often tended to be newly created for this specific transfer task. Sometimes, *split transfers* could also happen, which referred to the situation where the whole stock of the Local Authorities (LAs) had to be split between several HAs, as in the cases of Bexley and Coventry. This was normally to comply with an official ceiling on the maximal size of transferring landlords that had been set at 5,000 units but were removed in the early 1990s. The Scottish Homes (Gibb, Kintrea et al. 2005) and the Scottish New Town transfers (Goodlad and Scott 1996) could also be regarded as split transfers, as there was a very clear policy intention to create a more diverse and contestable social housing system in Scotland and a significantly greater commitment to tenant involvement. The third type is *partial transfer*, where the LAs still retained some of their housing stock, but transferred some of their run-down estates with significant repair needs.

The last and least common transfer type was *two-stage transfers*, which was pioneered by Sunderland Metropolitan Borough Council in 2001. This approach allowed change to proceed for an LSVT through a single council-wide ballot process but for stock to automatically then transfer into locally-based entities in a group structure. The largest two-stage transfer was implemented in Glasgow and it was quite different in nature. The intention had been to follow the Sunderland model and to create 15 to 18 new local entities, with around 60,000 homes through a single ballot and also to transfer around 24,000 homes to existing associations to expand them to a more effective size. However legal differences between Scotland and England stopped these plans and all of the City of Glasgow's 84,000 homes were sold to the Glasgow Housing Association, which was then charged with establishing the appetite for transferring some of these assets to local 'community ownership' associations. (see Maclennan 2014).

This variety of transfer processes offers a rich set of precedents from which to potentially learn for current actions. It is useful to summarise contrasts and commonalities between UK and Australian public and non-profit housing. The key similarities and differences include:

- Like the UK, Australia's system of public housing saw the bulk of stock created in the post-war period largely for 'working families' and living conditions significantly were lifted for poorer households; however Australian public housing was not a major welfare state pillar and never housed more than 6 per cent of households.

- Like the UK, Australia embraced new economic and public management ideas during the 1980s; this was, in Australia, reflected in a reduction in support for public housing but without much new investment or restructuring in the housing association sector until after 2010 so that Australia, in contrast to the UK, has had little past experience of social housing reform.

- In both countries there has, since the 1980s, been an increased reliance on market provision of housing. The UK differs from Australia in the extent to which it has refashioned social provision from public to non-profit housing and the Australian public sector is shrinking and residualising, while there is little sustained policy to shape non-profit roles; it is also arguable that the drive towards 'consumerism and contestability' in public service provision in the UK, not least during the Blair administrations was much less apparent in the Australian context.

- Like the UK, the trajectories of local social housing systems are driven by multi-order systems of government, even if the mix of government orders differs; national and devolved governments in the UK have to work with municipalities to fashion change, just as the Commonwealth Government and states need to act jointly in Australia.

- There is a strong place-making dimension in UK social housing policies so that housing choices are well-recognised as a vehicle by which other opportunities in life can be accessed (notably education, health, crime reduction). This has meant that increased funding commitments, with wider action agendas, have been available to the sector. Such approaches are still limited in extent in Australia.

- In Australia, since the first Commonwealth-State Housing Agreement in 1945, public housing has largely been a commitment of Commonwealth governments. This has meant the creation of a small but locally significant sector that has sometimes been at the mercy of variations of approaches and interests by successive state and Commonwealth governments; in the UK the municipal ownership of public housing has shaped a different housing politics so that national government policy shifts are often locally contested and resisted.

- In both Australia and the UK public and council housing has, despite differences in political and ownership structures, sometimes become close to a political 'fiefdom' for, in Australia, state housing Ministers and, in the UK, Convenors of local housing committees and, in the

latter, transfers from council to non-profit ownership were often seen as a shift from political to professional management of housing stock.

- In neither the UK nor Australia has there been a strong professional culture of asset management within public housing and management styles have been widely characterised, in both, as bureaucratic and paternalistic.

- While residualisation (an increase in the proportion of public housing tenants in the most disadvantaged groups of households) has been noted in the UK, this process seems to be particularly acute in the much smaller Australian public housing system. In Australia, 80 per cent of households occupying public housing are in the bottom income quintile (Jacobs, Atkinson et al. 2010).

We make these introductory observations to indicate the broad UK context, how much it has changed, and is changing, and how it contrasts with Australia. The stock transfer experience reported here does pose useful questions for Australian states and localities, but also raises issues that UK-based governments and providers could usefully revisit.

1.4 Research method

The historic significance of public housing in the UK, and its subsequent major contraction and transformation, has attracted attention from many housing scholars. The wide topics covered include, for example, the historical evolution of the sector (Dunleavy 1982), the impact of Right to Buy (Forrest and Murie 1983), policy modernisation (Mullins, Reid et al. 2001), welfare system reform (Mullins and Murie 2006), management challenges (Sprigings 2002), new financial arrangements (Gurran and Whitehead 2011; Whitehead 1993), housing systems issues (Maclennan and More 2007), and the performance of the new social landlords (Pawson and Fancy 2003; Pawson and Mullins 2010). Indeed, the single largest transfer, of Glasgow's municipal stock, has generated its own literature (reviewed in Maclennan 2014). That work, and the much wider 'grey' literature on urban regeneration, community building, and partnership, formed a platform of background knowledge for this research. However, little of the literature focuses explicitly on the capacities for success, and hence the focus of our analytical framework.

The new empirical content of this report is based upon interviews with housing sector participants involved in stock transfer policies and projects in the UK. Those interviewed included senior housing association staff, government officials, key legal and financial consultants and policy researchers. The interviews involved some longstanding participants in stock transfer processes since the early 1990s as well as staff involved in recent and current transfers. Some 41 professionals were interviewed, 12 in Northern Ireland, 13 in Scotland and 16 in England. The higher proportion of numbers in Scotland and Northern Ireland (relative to their overall share of UK social sector housing stock) reflected the aim to include these important transfers both because they had particular relevance to Australian policy settings but also because 'UK' accounts have largely omitted them in the past. Within England, the aim was to ensure a reasonable regional spread of interviews and a variety of transfer vintages and sizes. Organisations were not selected because they were statistically representative but because their scale and setting were illustrative of some of the major aspects of UK transfers. Nobody declined the invitation to be interviewed, but in four instances it was not possible to arrange diaries to complete interviews.

Of those interviewed seven were researchers/consultants, eight were government officials and the remainder, 26, worked in the non-profit housing sector. In the latter category Chief Executives/Directors were interviewed. The interviews were scheduled to last one hour but almost all lasted close to two hours. In the Scottish case, interviewees were talked to separately but then agreed to have a morning seminar of six Directors and the former CEO of Communities

Scotland reviewing their collective insights. We found that latter approach worked well and prompted wider insights than solo interviews. It was not possible to repeat that 'collective' process in the other regions of the UK within the project timescales and budgets. The interviewees, whether spoken to individually or in a group, were much enthused by their subject and in almost all cases spent time spelling out how they thought associations would unfold in the future and not just their past experiences. It was not the focus of this research to take a forward look at the UK and that material will be reported elsewhere.

Many of the matters raised in interviews were sensitive, both in relation to past transfers and ongoing debates and projects. In consequence, the report has eschewed reporting direct quotes but either summarised the weight and diversity of views that we heard and or, where participants had already made public statements on the matters involved, summarised the views attributable to particular individuals.

Statistical information on the sector was used as a background but no new quantitative analysis was undertaken in this project. Tenants were not interviewed. A wide reading of policy papers as well as published academic literature influenced the development of a conceptual framework, set out below, for defining and assessing transfers, capacities and successes. It was not the task of the research commission to review and report on that literature but to use it as a basis to frame this study. Finally, we are aware of the emerging literature on housing associations and transfers in Australia but, again, it was not the role of this study to review that literature or to provide definitive policy 'answers' for Australian experiences. Rather, this review, is to point to questions and dilemmas that emerged in the UK context that might also appear in the Australian context and that might look to UK experiences not for answers but for ways of identifying the right questions to ask in making policy and practice changes.

1.5 Structure of this report

The next part of the report, Chapter 2, sets out the research approaches used in the study and presents a conceptual framework, or heuristic, for defining and linking the drivers, processes and consequences of housing transfers. It also suggests ways in which outcomes and organisations might be identified as being more or less successful. Chapter 3 reviews the capacity questions that arose for governments, public housing landlords and non-profits in transfer processes and in the early stages of new landlord arrangements. Some of the key shapers of organisational evolution and success over longer time periods for mature stock transfer landlords and sectors are considered in Chapter 4, and some general conclusions are presented in Chapter 5.

2 Research framework, approaches and questions

This chapter establishes the theoretical framework we used in this report as well as defined the key concept we are interested in—capacities. It was argued that:

- Stock transfer is regarded not just about 'fixing houses' but about system change. In effect, and recognising path dependencies, this would have required an evolutionary-economic conceptual framing of stock transfers in which evolving organisations and housing systems would have moved forward in a context of changing policies, social and economic contexts.

- A wider perspective on what was transferred should be taken, which includes at least four broad categories, namely the housing asset, people, strategy and the wider economic and social impact.

- A dynamic model of stock transfer is useful to understand the evolution, adaptiveness, resilience and success of housing associations and the industry as a whole.

- Glickman and Servon's (1998) conceptualisation of capacity is insightful in uncovering the different features of a 'successful' housing association and the sector. We further developed this framework by adding in the layers of actors in the decision-making process; the balance between in-house and outsourcing resources; the four aspects of organisation-capacity; and the needs for coevolution for industry capacity.

2.1 Conceptualising stock transfer

In the key actor interviews there was much emphasis upon the importance of governments, both bureaucrats and politicians, having the capacity to shape a new vision for existing public housing stocks and to have a coherent narrative of the benefits and costs of potential changes. This implies some underlying model(s), perceived causality chains or theories of change and consequences. As stock transfer relates to durable assets, it clearly had to be a framework of thought that was forward-seeking (the vision) and that allowed for wider system effects, as stock transfer was argued by some as not just about 'fixing houses' but about system change. Transformative processes are often complex, and difficult to predict in detail, but the rhetoric of policy advocates in stock transfer often emphasised the potential transformation of organisations as well as the functioning of the housing systems within which they were set. In effect, and recognising path dependencies, this would have required an evolutionary-economic conceptual framing of stock transfers in which evolving organisations and housing systems would have moved forward in a context of changing policies, social and economic contexts.

It would have been good policy thinking to have put these wider and longer term questions at the centre of transformative stock transfer policies, to have thought more about the organisations and systems created and their resilience and growth (decline) prospects. However, as discussed below, mostly they were not and the cost of 'fixing houses' dominated thinking. These observations are made not to criticise hard-pressed officials engaged in complex processes with urgent deadlines who reverted to much simpler, short-term models and evaluations of change. The purpose is, instead, to recognise that a fundamental aspect of the

success of associations over the longer term has been their ability to recognise that they have grown and evolved, or have the ability to do so, beyond the roles, scales and boundaries set in their initial constitutions, structures and funding arrangements. In a pervasive sense they have succeeded beyond their design: carthorses have learned to trot. To grasp these issues, it is useful to lay out how transfers were conceptualised. The gap between that policy model and the real potentials of the organisations created may have been the key to the subsequent flourishing of the association sector.

Few of the academic studies on stock transfers looked for the wider, longer benefits (or costs) of transfers (Pawson, Davidson et al. 2009 and Maclennan 2014 are exceptions). Stock transfer (the clue is in the phrase) was narrowly conceived by bureaucracies simply as the shift of a given number of housing stock of a defined quality from a public landlord to a non-profit provider with a transfer price that allowed stock to be improved to agreed standards while retaining affordable rent levels. As tenant ballots were required, the usual process and offer involved the development of a specific, priced 'commitment package' issued by the local authority on behalf of the proposed transfer landlord (Pawson and Mullins 2010: 198), which usually included promises on:

- property repairs and modernisation

- rent levels

- improved housing management services

- new housing development and/or area regeneration (usually limited)

- protection of tenants' rights.

In Scotland, the wider system change aims associated with stock transfer led to the program label of creating 'Community Ownership'. Stock transfer was there seen as a means to wider ends. The official approach to stock transfer in England largely focused on establishing housing condition and disrepair costs for the stock owned by a municipality, setting an affordable rent inflator (usually RPI plus 1% per annum), applying estimates of likely management and maintenance costs to derive a stock value and then ensuring private debt finance at competitive cost to fund the purchase. Research on transfers focused on the stock valuation, cost and cash flow issues. Few transfer programs (with Scottish Homes an important exception) considered different transfer phasings through sequential, partial transfers. The potential for growth in asset values was largely ignored, as transferred houses were viewed as a management task rather than a development prospect, and there was little attention to the future dynamics, and capacities, of the local/metropolitan housing systems being created. Neither national nor local governments developed the research capacities to create robust visions and narratives for the benefits of system change. In the absence of evidence-informed narratives, persuasive politics played critical roles. Power dominated informed thinking in many transfers, and indeed non-transfers.

Successful valuations, cost efficiency and the organisation of the cash flows and services associated with meeting specified management and maintenance standards over a forward 30 years were the framework of ideas and questions driving stock transfers. These considerations dominated government ex ante assessments of value for money in stock transfers, as demonstrated by the Department for Communities and Local Government (DCLG)[2] Housing Transfer Manual (2013). The relatively limited number of serious ex post reviews, such as those prepared by the National Assembly for Wales (2001), the National Audit Office (2003) and Audit Scotland (2006) also narrowly focused on such issues. In presenting cases for the Glasgow

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[2] This is the central government department responsible for social housing in England.

transfer within both the Scottish and UK governments, which required a major government debt write-off, the narrow value-for-money (VFM) analysis dominated debate. There was no wider cost-benefit analysis of housing system change and it was only the special advisers of the Chancellor of the Exchequer who posed hard questions about how the project would actually change the local housing system for the better.

If this review were to take the conceptualisation of stock transfer as developed by government, then the success of transfer associations would be judged by how they had managed the specific houses they bought to the rents, costs and standards agreed in transfer contracts over 30 years. This would require important capacities in cost management and client selection. The figures on rents and dwelling quality for the association sector would suggest that this narrowly defined 'success' is well on track. However, this standard of judgement sets a low bar. It would require associations to have the capacity to ignore the world changing around them, to have no entrepreneurial skills (other than in cost reductions) or growth motives, and to have no development potential or vision.

In developing the conceptual framework for this review, to understand success capacities, we took the view that the official notions of VFM and the de facto theory of the problem were much too narrowly defined. Policy and project assessments largely ignored key strategic choices for 'sellers' and 'buyers', oversimplified the nature of the transaction, did not identify important wider and longer impacts from the once-off transfer process, paid little attention to how transfers could change housing system functioning, and simply failed to consider how transfer could shape the future trajectory of the whole affordable housing industry.

The narrow VFM approach used, encapsulating government's theory of the problem, needs to be set within a wider, longer view of costs and benefits. A brief look at Australian transfer discussions suggests similar under-specification of the transformation questions. A new analytical capacity and evaluation capacity is badly needed.

This section of the report therefore, aims to present a heuristic framework for drawing together the drivers, processes and consequences of housing transfers. It will help to:

- Define what 'transfer' means as a range of capitals and capacities to address wider policy goals in particular contexts.

- Identify the potential dynamic outcomes for organisations and wider provision systems.

- Suggest the range of considerations that need to be examined in order to assess whether transfers might be identified as being more or less successful.

- Highlight the capacities that shape success.

Asset transfer, organisational and system impacts and dynamics, success measures and identifying the different capacities required for the diverse processes involved are the key conceptual concerns. The notions of success and required capacities developed below then informed the interviews conducted and are reported in Chapters 3 and 4.

2.2 Notions of transfer

As noted above, the narrow conception of stock transfer at the core of policy design focuses on the repair and management costs, rents and net cash flows from letting transferred stock (i.e., physical assets). However, transfers involved more than physical housing assets, not least the land lying beneath them. Other land, such as estate grounds, and property often transferred within stock transfer deals. Tenants, with different risks and characteristics (that could impact property values if managed poorly) were also transferred and with them not just the social capital of their communities, but the capital arising from neighbourhood quality (or place capital). Tenants are a particular form of human capital, and so were the staff transferred, more often

than not, from public landlord to non-profit. With them came their past experiences and organisational cultures. Real estate, social, human, and capital assets and the capacities associated with them are involved in transfer processes and outcomes.

These 'softer' assets, that are likely to impact organisational success, received little attention in the design of policies and valuations of what was transferred. Housing stock transfer was not, in most instances, an end in itself, but impacted the aims of different participants in the process. Most obviously transfers, allied to access to private finance or development subsidy streams not accessible to public authorities, were a major driver of council willingness to offer to dispose of their stock and of tenants to sanction that process. The goals went beyond the quality of the existing public sector stock. Some councils understood that associations were more likely to access funds for new social and other housing, and in some instances to engage communities in change and make links to other activities. Other councils found community engagement difficult and were not adept at local cross-sectoral service integration within poorer neighbourhoods or had no funds to do so.

It became obvious that stock transfer entities had a potential to undertake these roles in ways different from councils, and the policy aim was often about community engagement and neighbourhood renewal rather than simply dealing with poorer quality housing. While although councils and tenants had regeneration aims for stock transfer vehicles, these influences often lay outside calculations of stock values and required capacities.

We argue that the aims, costs and benefits of transfers go beyond quality of homes to vitality of communities and neighbourhoods. There are likely wider local housing system effects. In Scotland there was an explicit concern, both in the Scottish Homes and Glasgow transfers, to shape patterns of stock transfer to strengthen and diversify the existing non-profit providers either by creating new associations where none had existed before or in transferring stock to existing providers to promote their economies of scale, and sometimes, scope. Transfers, unless they simply replicate the structures and ethos of the disposing landlord, are not an economically neutral shift within housing systems. Homes are relocated from the control, finances, security, allocation regimes and ethos of the public sector provider. Changes are likely to be most marked where a local public monopoly provider is replaced by a series of contestable entities. Transferred homes then become assets within a different system, often, of values, risks, capabilities, contestabilities, financial sources, subsidies and scoping of roles. In so doing, their value and potential role as a development prospect, and not just the ways in which the homes involved will be managed and maintained, will have altered. The dynamic benefits of that development prospect may well outweigh the static efficiency gains from better management of given tranches of stock. What are the capacities that non-profits can deploy, that may not be available within the public sector, to both manage better and exploit emerging development opportunities? Remarkably, the latter considerations were almost completely absent in government views and assessments in the development of English transfers. In essence, the basis for the valuation in determining transfer prices in the UK was the assessed value of the business of being a social landlord. It was not the assessment of open market capital values of the housing and business asset involved. The UK Treasury took view that the latter open market valuation was inappropriate unless it was assumed government had no commitment to the provision of social housing. Australian state Treasuries have adopted the open market full capital valuation approach, and that not only seems somewhat inconsistent with state commitments to public housing, but is also likely to preclude transfers to the non-profit sector (at least without significant increases in rents or tenant subsidies to cover the market valuation of property prices).

Clearly transfer allows new choices about finance, staffing, partnerships and roles that can offer prospects of growth to well-led non-profits. These latent development possibilities within stock transfers are capable of being revealed and used by non-profits to give organisations a quite

different dynamic or evolutionary path from first imagined and this is discussed in the next section.

The more eclectic view of what transfers can comprise, impact and create is summarised in Table 1 below. We identify four broad categories, including the asset itself, people, strategy and the wider economic and social impact. Asset value is the first and foremost concern during the stock transfer process for the central government, local council, transfer HA as well as the private financial sector, as it determines the transfer value, potential public subsidy, long-term cash flow and private borrowing leverage. Generating a realistic asset evaluation and managing them effectively are related strongly to the organisation's management and technical skills.

Networking and political skills also feature high, as in practice, the process of evaluating stock is 'more of an art than a science' (Gardiner, Hills et al. 1992) given that the final figures were generally the result of numerous negotiations between central and local governments as well as the new landlord. Within the broad 'asset' category, we further identified at least five sub-subjects, including the current housing assets; the developmental value of the current assets; financial leverage of the current assets; the land and the psychological and sociological value of the asset as 'home', drawing on the discussions of Whitehead (1993), Ginsburg (2005) and Malpass and Mullins (2002).

In relation to the transfer of human capital, there are at least two areas of importance. At the most basic level, as required by the TUPE regulations, most of the newly formed HAs were largely staffed by transferred, former employees of the council housing department. At the same time, the executive directors of non-profits formed to receive stock were often the former director of the local authority housing department (Pawson and Mullins 2010: 171). One potential danger of such large scale personnel transfers was that the institutional culture of the former landlord was relocated into these supposedly 'new' organisations. Some critics of LSVTs argued that transfer was merely 'the emperor's new clothes' or 'repainting the council housing offices' (Cope 1999: 295) though Pawson and Mullins (2010) reported that research evidence did not support the view that change was merely cosmetic.

In relation to organisational governance, in England Association Board composition was determined on a representative model, and included tenants, local councillors and independents. In most pre-1996 transfers, tenants could account for one-fifth to one-third of the seats, whereas council nominees usually got up to 20 per cent (the legal limit to 'local authority persons' at that time, which was later relaxed to 33%) (Pawson and Fancy 2003). The persistence of council influence both through the Board and the Chief Executive has been a longstanding key feature of new transfer HAs in England. The empirical evidence reported in Pawson and Mullins 2010) suggest that such influence was modest, at most, and that freed from the constraints of operating within a politicised local authority environment stock transfer, Chief Executives led substantial and relatively speedy cultural transformation.

In Scotland, for LSVT, a different regime applied. There the government agreed to return control of 'enabling' functions related to associations from Scottish Homes to the councils that transferred their stocks and ended their provision monopoly. In these circumstances, senior council staff often remained with the council rather than transfer to the new entity. These staff transfers could exert significant institutional inertia and become a barrier to swift adaptation to new circumstances. Again, such side-effects of stock transfer were not fully anticipated in the policy negotiation and design process.

The last category, community and wider neighbourhood impacts of housing organisation and investment, has been widely acknowledged by academics (Malpezzi and Maclennan 2001; Page 2000; Power and Richardson 1996) to have significant impacts on the social and economic wellbeing of lower income households. Since the late 1990s, the large physical investment in existing housing stock in order to reach the Decent Homes Standard (that was set

by national government, in England, for councils to attain by 2015) has emphasised the potential role of stock transfer in wider neighbourhood regeneration. Although this policy aim was long recognised in Scotland (McKee 2008: 183), in England these wider benefits only started to draw explicit political attention after 1997, when stock transfer had moved from rural, and generally well-maintained areas, to inner city municipalities where serious economic decline and social deprivation characterised areas of social housing. Legislation soon acknowledged the wider role of housing associations, so that the previous tight limitations on their 'additional activities' were lifted, and they were encouraged to contribute to the government's 'housing plus' agenda (ODPM 2003).

With the introduction of a national neighbourhood renewal strategy for England in 2001, the UK Government recognised that they had 'under-specified' their theory of change in relation to stock transfers, and moved to the stance that Scottish homes had embraced for at least a decade and required local authorities considering transfer in England to 'consider how transfer could contribute to the regeneration of the area'. They further asked that 'investment to improve social housing should be properly planned and part of a wider neighbourhood renewal strategy' (ODPM 2004: 14–20).

The National Housing Federation, which lobbied on behalf of non-profit providers, also advocated these wider benefits of their roles and embraced the slogan 'In Business for Neighbourhoods' (National Housing Federation 2003). They propounded four key propositions for the sector, which:

- stressed they were in the 'Business for Neighbourhoods'

- aimed to create places where people want to live

- invested in a range of services as well as homes

- were independent social businesses working with local people and partner organisations to deliver results.

These were important shifts in perspective, shared by governments and the non-profit sector. In policy rhetoric, at least, they narrowed the gap between what stock transfer could actually deliver and formal contractual obligations and agreements of transfers. Yet such aims, their costs and benefits, and implications for stock transfer values, as well as the capacities required to deliver them, remained outside of the formal models of valuation and evaluation processes. Taking these wider effects into account when enumerating associations' successes and required capacities, our conception of transfer emphases the importance of outcomes for multiple assets in the transfer processes.

Table 1: Narrow and wider subject of transfer

Categories	Subjects	Exemplify
Assets	Current housing assets	Existing stock as steady income generating means.
	Developmental value of the current assets	Appreciation of the property price.
	Financial leverage of the current assets	Book value of the housing assets as security for private borrowing.
	Land	Appreciation, development and speculation value.
	As 'Home'	Attachment to existing housing stocks and community.
Human capital	Tenant	Existing tenant composition would be largely transferred from council to HAs.
	Housing staff	According to the TUPE regulations, staff working in the Housing Department of the local council or other former public sector landlord (e.g. Scottish Homes) should be retained in the transfer HAs (with existing terms and conditions protected for two years?), unless they chose not to.
Strategy	Board	In most cases, the board structure in the transfer HA could be pre-determined by the council when it was drafting the transfer proposal, and generally followed a third (councillors)–third (tenants)–third (third parties) model. Therefore, local councils retained significant influence on the strategies of the new HA, at least in the first few years.
	Business plan	As in the board structure, the business plan of a transfer HA was primarily drafted by the local councils, or more commonly, by contracted consultants. HAs were bounded by these initial plans at the beginning, although they could start revising it once they became mature.
Community & Wider impact	Neighbourhood and community	Area regeneration and community development were generally included as part of the transfer prospectuses. The cost of such activities, however was too tangible to be fully anticipated in the original business plan.
	Wider economic and social concerns	This may incur directly or indirectly. Direct impact could be stimulated by training, area regeneration, property refurbishment, reducing crime rates, and enhanced social cohesion and inclusion.
		Indirect effect could be found in the changing demographic characteristics of the tenants; their job prospects and associated income changes.

Source: The authors.

2.3 Understanding the dynamics

The previous paragraphs indicate how, within a decade, the policy goals for stock transfers evolved, even if the financial and governance design of the policy did not. But policy shift is only one of the elements of organisational, system and sector dynamics, or evolution, over time that needs to be considered in much more detail. Closely related to the question: 'What kind of housing system are we creating', discussed above, there is the fundamental question: 'What kinds of organisations are we creating'. Politics, so often important in stock transfer, deals with the numbers of houses to be renovated, transfer receipts and the merits (often assessed in ideological terms) of public, private and non-profit provision. In the UK, and elsewhere, however, it has paid insufficient attention to the issue of the organisations being created (or reconfigured through expansion) and how they might evolve.

A number of key questions confront both policy-makers and non-profit leaders. First, as housing assets (and new organisations to manage them) will exist into the longer term, in what ways do the recipient organisations deal differently with time-related questions such as risk and uncertainty. In what ways do public and non-profit sectors have different appetites for and capacities to deal with risk: that is will they deal differently with shocks and is a sector more flexible in the face of change than public housing providers?

Second, passing time presents new opportunities, some currently unpredictable, that may change the asset values of transferred land and properties. Socio-economic change may call for new mixes of housing and other activities to deliver the key services that households want. New 'markets' and development 'opportunities' have to be created and seized and the question arises whether non-profits have creativity and entrepreneurial capacities and incentives that do not exist within even the best-managed public sectors. Can the trotters, evolved from carthorses, become racehorses so that stock transfer shapes the formation of, in the long term, more creative housing organisations.

A third similar, but different, question applies to the overall sector created (noted in the sections above). Where stock transfer creates multiple, rather than monopoly provision of social housing, how far does the diversity and contestability prevailing in such systems generate more pressures and capacities for innovation?

Finally, policy action always deals with less than perfect information about the future (and indeed the present): are there aspects of creating associations through stock transfer that change their capacities and future growth trajectories? Is the stock transfer process, per se, a process of creative destruction? This different path might be a direct outcome of the capacities developed to pursue the processes of transferring stock. The transfer process poses a series of hurdles for recipient organisations that challenges them to learn new skills, often quickly. Creating networks of political support for change, developing a credible business plan, engaging with tenants, learning to negotiate with private financial institutions, all exert new demands on the management capacities of social housing landlords. In the UK the process revealed much new insight about key aspects of housing provision that councils had largely ignored. The interviews reported in more detail in the next two chapters emphasised that developing the stock transfer business plan and the balloting process created new requirements to value stock, identify current and future repair costs, understand the nature of complex contracts and undertake major and new communication strategies. Arguably, stock transfer markedly expanded the capacity of the UK's affordable housing industry and, in the process, improved the strategic management of UK social housing.

When housing stock transfer is seen as more than 'fixing up these houses' but about system transformation, then these questions are critical to policy choices and the capacities that non-profits need to have. It is worth reflecting on these issues further as they received little attention in the design of UK policies (with exceptions). We believe an evolutionary perspective on non-

profit housing providers is appropriate in understanding their dynamics, adaptiveness, resilience and success. There are a variety of models on the growth and evolution of firms and non-profits (Nelson and Winter 1982; Williamson 1988). Here we do not examine them in detail nor highlight a preferred approach but instead draw out some important general observations about the evolutionary behaviours and capacities of organisations.

It is also worth observing that UK housing regulators have been monitoring individual non-profit behaviours for almost four decades, but there is no overall research or consolidated understanding of the organisational evolution of individual organisations in the sector. Some regulators report performance information for 'peer groups' of providers, but that only indirectly reveals path of evolution. Australian regulators face a similar challenge, to use data collected to understand the sector.

In the interviews there was a great deal of discussion on how not-for-profits had, or had not, evolved after receiving transfers. The next chapters reveal that there was a strong view to support well-defined evolutionary capacities and patterns within the sector (see Chapter 4). The questions posed in the interviews arose from very general ideas about 'organisational life cycle models' that, as opposed to some unforeseeable and random events, posit that it is likely to be a predictable, but probabilistic, expected sequence of advancements experienced by an organisation. The classic organisational life cycle theory largely agrees upon five stages of an organisation, including birth, growth, maturity, decline, renewal/decline (Lester, Parnell et al. 2003; Lewis and Churchill 1983), as shown by Figure 1 below. In Chapter 4 we report interview responses that suggested some trajectories consistent with this broad approach.

Figure 1: The typical stages along the life cycle
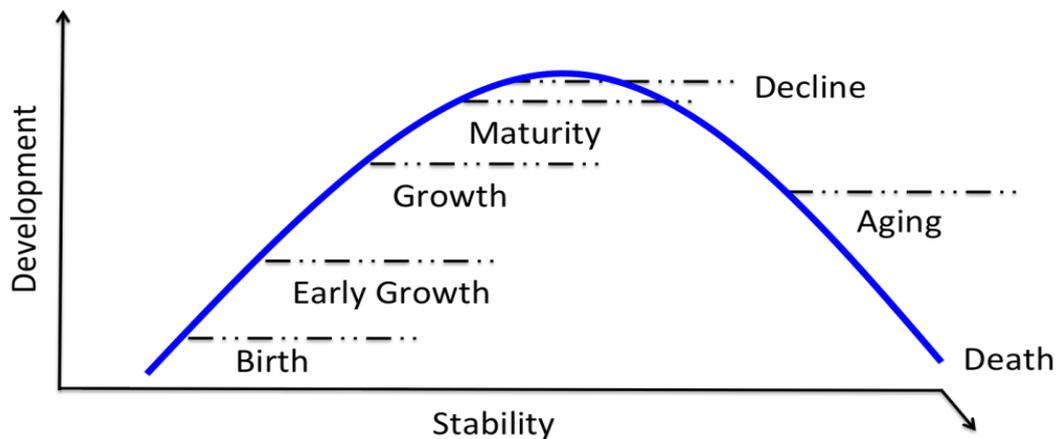
Source: Sisney (2011).

Greiner (1998) refined this approach by suggesting that organisations may enjoy an evolutionary phase of a relatively smooth period of expansion with no significant shocks or disruptions. They are then likely to encounter a revolutionary phase of considerable disturbance within the organisation or in the wider socio-economic and policy settings. This could be described as a process of punctuated evolution (rather than equilibrium). Greiner suggests that the evolutionary phase could provide the organisation with a stable environment and predictable capital flows for its development, but it is arguably in the revolutionary phase that radical changes and innovations happen.

This view of organisational innovation is consistent with the innovation theories of Schumpeter (1934; 1939) and his followers (Feldman 2005; Freeman, Clark et al. 1982; Kline and Rosenberg 1986). Greiner's model can be applied to the five phases of growth outlined above. In this research we do not pursue such detail, but try to elicit some sense of the capacities of

non-profits to thrive through their formation and, in turn, respond to or create change when more significant shocks or opportunities unfold. We emphasise this dimension of stock transfer that policy and research has until now largely ignored. Of course there are important differences between for-profit and non-profit organisations, and we do not assume a priori that Not-For-Profit's (NFP's) evolutionary trajectory will follow those identified by classic organisation life cycle theory. Thinking about the sector's adaptiveness to changing environments and its resilience to major shocks are highly relevant in this context.

2.4 Considering success, whose voice counts?

The 'new public management', that has emerged over much the same period as stock transfer policies have developed in the UK is, we believe, a useful framework for making government policy choices both more effective and economically accountable. It is a coherent framework for assessing policy 'successes' when goals are clearly specified. 'Managerialism' is recognised as a key feature of this 'new public management' movement (Pawson and Mullins 2010), which refers to 'a discourse which sets out the necessity of change; a set of tools to drive up performance; and a means through which an organisation can transform itself to deliver a modernised notion of public purpose to a modern conception of 'the people' (Newman 2000: 58). Seven 'themes' of this managerialism have been identified by Hood (1995), including disaggregation, competition, private sector management, discipline and parsimony, hands-on top management, performance standards and pre-set outputs.

Not all of the above features apply to all stock transfer processes, though disaggregation is often a feature of the restructured housing systems. However, although these concepts influenced changes in management usually associated with the advent of stock transfers, and shaped the questions posed in the next two chapters, there was not a systematic database across stock transfer associations to characterise these changes and relate them to 'success'. The only aggregate overall success measures that are available are the published association performance measures derived from regulatory monitoring, and these raw scores are not related to a detailed profiling of measures of resources and capabilities, or capacities, for associations. A broad aggregative sense of what capacity may have been lacking in a poorer (by regulator success measures) performer may exist but usually lies unpublished within the bureaucracy. Consequently, we had to rely on our experts' opinions.

The preceding sections have highlighted the complexities of the impacts of stock transfers when the policy scan goes beyond housing stock improvement and also drawn attention to the different trajectories that organisations and places might develop. Evaluation of progress, and the identification of success, defined as performance on outcomes that meets defined goals, is further complicated because there are different parties to the transfers. These different interests may give quite a different rating to the same measured set of outcomes.

The 'interested parties' in UK stock transfers were clearly identified by Pawson and Mullins (2010: 62) and their list is slightly refined here. It includes various actors associated with the seller, namely, the local authority, and the buyer, the non-profit. Within these organisations different groups may also use different success metrics. Within the council, politicians, staff who transfer, staff left behind and, where transfers are only part of the stock, tenants left in the public sector may have differing interests. In the non-profit purchaser, original, new and transferred staff all have views as do governors. Two other parties have a core place in success measures. National/ federal and state/devolved administration governments have objectives and interests other than seller interests. Even more obviously, tenants whose homes are transferred in the process have key concerns on not just the quality of their homes and key services and rents impacted by the transfer but their housing rights and their wider wellbeing and neighbourhood quality. As different groups may define success differently, even within the same transfer, they may also take different views on the capacities needed to determine long run successful

performance. We make no attempt, as would be required in an overall programme evaluation, to weight the success measures of different groups for each organisation reviewed/interviewed. We report what different experts said about what drove particular aspects of success in different contexts.

2.5 Defining 'capacity'

As suggested above, a simple value for money exercise focusing on likelihood and the costs of repairing and managing a given housing stock at agreed 'affordable' rents under different organisational models has been the key criteria used by UK governments (central and local) to make both pre-transfer decisions, and post-transfer evaluations. A small number of studies recognised the narrowness of such criteria. For example, in Gibb, Kintrea et al. (2006)'s review of the effectiveness and impact of transferring Scottish Homes houses into community ownership, three key criteria were used, including business plan implementation; wider impact; and cost-effectiveness. However, outside of stock transfer activities the reductions in public finance for the council housing sector, and a growing emphasis on efficiency and effectiveness in local service delivery (including housing services) promoted by the (now abolished) Audit Commission, drew attention to a wider array of organisational 'capacities' in the housing sector. Moreover, a clear consequence of the growing use of private finance for stock transfers was that bank and other lender assessments of council and association landlord's capacities became commonplace. For instance, in aspects of financial performance, the monthly publication *Social Housing* makes available a whole range and rankings of association performance on financial indicators, information that simply did not exist in the public domain before the mid-1990s—and remains absent in the Australian context. Notions of capacity required expanded well beyond those considered in stock transfers.

Just as governments' scope of what stock transfers could achieve over time expanded, so did the professional housing management understanding of the capacities that landlords needed and used. CIH Consultancy (2013) for example, used the criteria 'innovation' and 'ambition' to characterise and rate the emerging features of councils still owning housing stock in and facing imminent abolition of housing revenue account subsidy system.

The idea of 'innovation' capacities within housing associations was first seriously explored by Jeanes and Rowlands (2001). They classified four types of organisational innovation, including: (1) total innovation, which refers to new services to new users; (2) expansionary innovation, which means bringing existing services to new users; (3) evolutionary innovation, that is to serve existing users with new services, and (4) incremental innovation, which describes the situation where existing services to existing uses are modified. Their research established that among the 474 most active English housing associations they studied, less than 20 per cent had initialised one of the four types of innovations. However, this picture of associations (in the later 1990s) as 'static' rather than 'dynamic' reflected a long period of relatively generous public subsidies and predated the strong promotion of wider roles and housing plus after 2000. In the last decade, adaptation to the GFC and sharp reductions in public funding have fuelled innovation and, as made clear in Chapter 4, associations formed from stock transfer engaged in substantial innovation beyond their defined roles within, usually, five years of formation. More recently, assessments of growing organisational hybridity and wider social enterprise actions by associations (Billis 2010; Mullins, Czischke et al. 2012) have become accepted as likely features for the new generation of housing associations.

The literature suggests that current patterns of association development depict skilled capacities in balancing competing organisational logics, trade-offs between social and commercial goals and resource transfers. Some argue that this reflects the growing 'privatisation' pressures previously directed at council housing (Forrest and Murie 1988; Ginsburg 2005) now being refocused on not-for-profits as well. With RTB now forced upon

associations and an ad hoc rent cut of 1 per cent per annum from 2015–19 by the UK Treasury, as well as concerns about the strength of the regulatory framework, the Office of National Statistics has reclassified English association debt as public rather than private. So the 'privatisation' fear may have some substance. But equally, what is observed may simply be associations become truly innovative in the spaces between state and market and developing new assets and capacities as they have evolved in new times. We explore this shifting set of capacities in Chapter 4.

This project is part of the wider AHURI program on the Affordable Housing Industry under Hal Pawson at the University of New South Wales. Research teams involved in the program, to ensure some consistency across reports, have settled on a broad definition of 'capacity' as the 'power, ability, or possibility of doing something'. In particular, Glickman and Servon (1998)'s capacity framework was selected as the starting point for research and benchmark for comparisons. This framework differentiates five dimensions of capacity, namely 'resources'; 'organisational'; 'networks', 'political' and 'industry-specific'. Based on our experience in looking at the housing association sector in the UK, a key component of the UK's affordable housing industry, these five dimensions of capacity were refined and new elements added, as shown in Figure 2 below. This figure serves as a guide to linking the different elements of capacities outlined below.

Figure 2: An HA (Housing Association) system capacity model
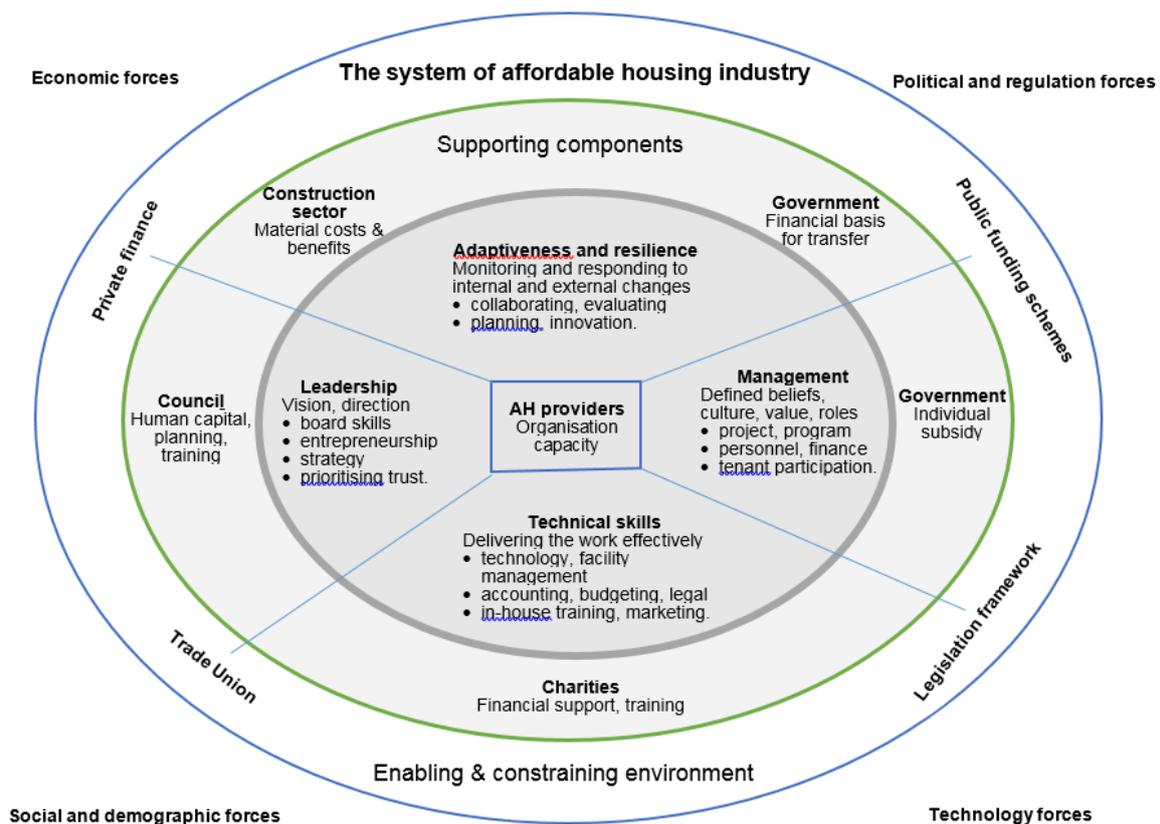
Wider national economic, social and institutional systems capacity model.

Source: Developed from Connolly and York (2003: 3), Glickman and Servon (1998) and Alexander (2000).

2.5.1 Resource capacity

Resource capacity, in Glickman and Servon's (1998) framework, is almost exclusively devoted to the ability of organisations to access, manage, and develop funds strategically and appropriately to the various aspects of the associations' needs. This is the capacity of both managing short-term cash flows, but also secure long-term operating support for consolidation, capacity building and expansions. A balanced portfolio that combines different types of development projects and activities is also part of the feature. Moreover, Glickman and Servon (1998) argued that an NFP's capability to secure finance is central to their capacity building process, and could determine their activities in all the other aspects. This emphasis on financing capacity is appropriate for many NFPs, as retaining stable capital streams (and subsidies) can become a problematic process when NFPs often rely both upon public funding support and wider, inter-organisational environments (Antrobus 1987). That said, it is important that organisations have the capacity to tap into wider resource pools that go beyond capital finance. According to Connolly and York (2003: 3), these include human resources, technology, program design and models, time, and facilities.

It is important to distinguish between the capacities that organisations recognise they need to use to deliver different services and developments. However, recognising and using capacities is not the same as containing or embedding them within the organisation. There is a well-established literature on economies of scale and scope that helps explain why organisations have hierarchical control, (employ) particular capacities, or whether they hire them in markets (outsourcing). Oliver Williamson's transaction cost economics is as applicable to small non-profits as to large corporations and explains how information asymmetries and the problems of specifying complete contracts shape hiring as opposed to purchasing choices (Maclennan and More 2007). When stock transfer created new organisations in a new operating environment, they needed fast access to specialised skills in condition surveying, valuation and tenant engagement, for example. As the associations 'settled down' and acquire scale, strategic choices need to be made about whether competences would be cultivated or hired in-house, such as human resources and facilities, or bought from 'consultants'. Some could be readily outsourced, such as using state-of-art technology and the latest program design method. This immediately calls our attention to understanding the 'system architecture' of the industry.

2.5.2 Organisational capacity

Organisational capacity, in its simplest term, refers to the ability of the NFP to deliver its declared targets efficiently and effectively as well as the flexibility it retains to adjust targets to changes in the operating environment (and referring back to the earlier discussion of dynamics, evolve effectively). Jeanes and Rowlands (2001)'s study emphasised the innovation capacity of associations. Although innovation is certainly one of the key aspects of organisational capacity, as we will discuss later, we nonetheless believe that there are more complicated factors involved. For us, organisational capacities, and not just innovation, should be the core of the capacity building for associations and the sector and they bridge across networking, political and industrial capacities. Our analysis has largely followed that of Connolly and York (2003) and Alexander (2000), and further distinguished four elements of organisational capacity in this dimension.

The first aspect is adaptiveness and resilience. Adaptiveness refers to the readiness of organisations to shift their established work patterns and resource allocations in the face of changes; whereas resilience describes the degree and speed of 'bouncing back' and 'doing better' after adverse shocks (Martin 2010). Both require the organisations to monitor and respond to internal and external changes. To achieve these purposes, NFP need to cultivate their skills in collaborating with various stakeholders; evaluating their performance; embracing long-term planning yet leaving scope for modifications when early actions do not bring successes expected. Moreover, some degree of innovation capabilities is expected, as to fit for

the new environment and/or to bounce-back require learning initiatives, launching process or product innovations, and risk taking, all are the features that linked to innovation (Hull and Lio 2006). This is also the key pre-requirement for an organisation to reduce the risk of being 'locked in' regarding their established norms, code of practice, and structure.

The second element, as extensively explored in relation to housing stock transfers by Pawson and Mullins (2010), is leadership. The importance of leadership is widely recognised among organisational studies. Johnson et al. (1993), for example, found that the leadership style of apartment managers had a significant direct effect on residents' satisfaction. Vidal (1992: 93) also noticed that 'the average total output of organisations that have enjoyed stable leadership is consistently greater than the output of other groups, and it falls as the degree of leadership instability increases'. A further distinction needs to be made between the leadership of the executive director and that of the Board. Boards have formal responsibilities to define the vision and direction for the organisation and to hold executives to account for their efficient and effective use of resources. The Board leadership skills that are crucial include shaping a vision and compelling narrative for the organisation, widespread advocacy for the new organisation, setting high level operational priorities that are testing but doable, as well as conferring support and trust to their chosen chief executive. Chief executives, need to share the vision and be able to cascade it to other staff and be entrepreneurial in their choices. They also have to win and hold the trust of the Board, staff and tenants as well as command respect in wider industry and government networks. Earlier research (Pawson and Mullins 2010), in the context of 'second generation' transfers, highlighted the powerful impact of leadership that was much more visible and accessible under post-transfer circumstances than within pre-existing council housing departments. In the next chapter we note that these balances of leadership roles not only changed as associations matured, but that they could often be problematic in early years as chief executives often had a professional awareness of strategic vision and strategy possibilities that either ran ahead or behind those of their boards.

The third element we include is management. This refers to the day-to-day operation of the organisation, effectively managing and delivering projects and specific programs, designing and monitoring closely the processes and financial wellbeing of the entity, as well as maintaining, expanding, and encouraging good tenant relations and participation. One of the important sources for this management skill is arguably human capital. Recruiting and retaining competent staff with the right skill set, experience, and commitment to the job is crucial. In stock transfers, a crucial issue becomes the capacity to align the knowledge, cultures and attitudes of 'transferred council staff' with the different styles and goals of the new non-profit landlord (Malpass and Mullins 2002).

The last element included in our notion of organisational capacity is technical skill. If the management skill refers to the 'software' of doing things, then the technical skill emphasises the 'hardware' of the organisation. Aside from the technical competences required to maintain housing stock, the technical sophistication of an organisation, in our ICT-enabled society, has a major impact on the efficiency of operation. This could include, for example, the adoption of new technologies and facilities. A case in point was documented in Balzarova, Bamber et al. (2004), who studied the successful implementation of a process-based management system within a UK HA. Such technical skill also covers the procedure and standardisation of accounting and budget control. The right legal expertise and marketing channels could also be included. In the interviews undertaken we noted a number of references of the need for large non-profits and local systems of smaller providers to engage in understanding and using 'big data' in ways that would alter service delivery as well as costs and housing infrastructure design, and this may be the next step-change in capacities required of associations.

Two further thoughts are worth noting here. First, although the above discourse on leadership and management sound similar to those of for-profit organisations, we concur with Gilmour

(2009), who argued that the significant differences between the two sectors should always be borne in mind. For example, whereas private companies have relatively uncontested performance measures such as profit and growth; NFP have a broader range of social and community objectives, many of which are beyond numerical calculation. In order to study the capacity of NFPs, a more discerning, situation-specific approach is needed to avoid a misleadingly high level abstraction (Wing 2004). Second, we pointed out earlier that organisational capacity should be the core of the capacity building process. However, we acknowledge the networked system nature of the whole affordable housing industry. Glickman and Servon (1998: 502) rightly pointed out that 'capacity is built from within and without' and that non-profits 'try to build capacity from the inside while at the same time getting as much from outside sources as they can'. This draws attention to the networking and political capacities of the HAs, which are two of the most important outreach channels that NFP's use to strengthen their internal capacity.

2.5.3 Networking capacity

Networking capacity captures the scale, scope and effectiveness of HAs in interacting and building connections with other organisations. It is different from market and hierarchy (Williamson 1988) coordination relations in that 'they are neither straightforwardly hierarchically organised via orders and administrative edict, nor are they based on straightforwardly strict market relationships where the main firm continually searches for the least-cost supplier and only maintains a short-term arms-length 'buyer/seller' relationship with its suppliers' (Thompson 1993: 65). Rather, this is a process wherein actors within the system jointly make decisions and complement each other in reaching common goals (Alter and Hage 1993). According to our conceptual framework 1, these networking skills refer to how well HAs could liaise with the supporting components of the system, as well as maximise the use of the enabling environment and minimise the limits set by the constraint factors. The supporting components in our framework are like the 'traditional networkers' identified in Gilmour (2009). These include the familiar organisations that are strongly connected with HAs in their city region, such as the local councils, professional/trade associations for HAs and their staff, and development and funding bodies locally, regionally and nationally.

The typical activities in these networking efforts could include, for example, broker relation and partnerships with other HAs that complement each other, scale-up sector voice and generate greater political impact, and update and impress different funders of their financial wellbeing. On the other hand, the actors in the enabling and constrained environment are more like those 'emerging networkers' in Gilmour (2009)'s typology, whose role in the affordable housing sector is now increasingly being (re)discovered. These are a diverse group of organisations and even individuals, including for example, rival associations, non-profits in other sectors, consultants and universities. Here the potentially important role of consultants merits attention, as we report below. They could contribute to HAs' organisational capacity by providing crucial management and technical support, as well as functioning as a bridge between HAs and other segments of the wider environment such as finance, legal and political services. In particular, we found that in the UK, consultants were the system participants that retain most of the system memory and have some coherent understanding of the evolution of the whole industry.

2.5.4 Political capacity

The various actors and institutions that form the political environment of the sector should be particularly important networking targets for associations. Nonetheless, existing studies that trace the transformation of the sector (see, e.g. Lund 2011; Mullins and Murie 2006) tend to assume a fixed view on the political environment and treat it almost as an independent variable outside the AH industry. In this logic, it is the AH actors and agencies that have to adapt continuously to the existing political setting to obtain crucial financial resources, legislative

support and eventually, survival. We partially accept this view, in that regulation and the requirements of regulation (e.g. stress testing, scenario exploration, the agreed language of regulatory assessment) are important aspects of system architecture.

Aspects of institutional frameworks (e.g. regulation) which encourage professionalism inherently build system capacity. If we adopt a systematic view of the AH sector, then policies and policy-makers are part of the system, so they are bound to be influenced by the housing associations at the same time as they influence the latter. In our conceptual framework, there is a two-way connection between the AH organisations and the political environment. There is clear evidence in Scotland, from at least 1988 to 2008, that housing associations had a significant impact upon political decisions about housing policy. Any analysis of the *Housing (Scotland) Act 2000*, reveals how tenancy, RTB changes, and the allocations of strategic responsibilities were designed to facilitate housing stock transfers. Such influences are much less apparent in the subsequent period.

Housing associations' networking and leadership skills are key to shaping their political influence, though even skilled experienced leaders may have little influence on governments that have strong ideological approaches to policy and seem little interested in sector experience and evidence until policies fail, after failing to make sense. It is too early to assess how associations will emerge from English policy shifts post-2012, but it is clear that despite apparently successful progress they had, by mid-2015 fallen far from the pinnacle of political popularity they had enjoyed after 1988. In our project interviews, we worked hard to have participants focus on the past capacity building rather than commenting on how the political capacity of the English association sector had contracted so severely in recent years.

Glickman and Servon (1998) further distinguished two levels of political capacity. The first dimension is upwards to the regulation bodies of 'representative politics'. Here some of the key activates include advocating community needs to the public officials; elaborating and justifying their resource needs; collaborating with local public officials and penetrating to regional and national level policy-makers. The second dimension is downwards to the 'participative politics' of tenants and communities. Winning trust and support from tenants is regarded by many as the most crucial and yet trickiest task in our study. Moreover, how to cultivate, support and work with active community groups is not an easy job either. In the context of England and Scotland, a tenant majority in a stock transfer ballot vote is a legal requirement for housing transfer to proceed; in the UK major efforts, noted above, were devoted to building tenant relations ex ante. In our view, for the UK context, it was this downward political effort of mobilising community interests and skills that not only made ballot majorities possible, but was also the foundation for upward political leverage, because it provides the evidence and rationale for upper level government support where there was an appetite for system change. This is very clear in Scotland, and in Glasgow in particular (Maclennan 2014) where major, community-led association efforts in rehabilitating older housing demonstrated a capacity for change that was then advocated for individual council estates and later for the public stock as a whole. This community capacity was demonstrably present in Glasgow, where stock transfer succeeded, and demonstrably absent in Birmingham, where it failed. On the other hand, winning governmental support, especially the public financial support, could offer HAs more room in improving and expanding their services to the community.

Besides these upwards and downwards policy-mobilising capacities, we would also add another element—'sidewards' policy leverage skills, especially in engaging effectively in media relations and action groups. This is important in shaping the image of the 'affordable housing sector' and the 'affordable housing problems', and further draw wider public attention.

2.5.5 Industry capacity

This is far more complicated than a simple sum of the individual organisational capacities within the system. *We believe that the degree of maturity in each layer of the association sector, their synergies, responsiveness and co-evolution, are the key determinants of the sector's overall capacity.* We previously advocated an evolutionary perspective for examining individual organisations. Here we believe that, for the sector as a whole, an evolutionary view of capacities is essential. We require a capacities framework which in its essence outlines a process and mechanisms by which the not-for profit housing economy self-transforms itself from within (Witt 2003). Dynamism, irreversibility, and novelty generation are regarded as three key capacities for any theory of economic evolution (Boschma and Martin 2007). This draws us to a life-cycle framework to understand the evolution of the sector. This framework asserts that organisations pass through identifiable stages of development, so it is dynamic. The stages can be classed as emergence, infancy, growth, maturity, and, potentially, stagnation and death processes, so it is irreversible.

The key challenge for us, then, is to identify how novelty could happen and what impact it has on this life-cycle. Here we believe that external shocks to existing providers, such as a proposal to transfer housing stock or to radically redefine the funding scheme could be triggers for novelty. Adaptiveness and leadership within the organisations provide the sources for changes, amplified perhaps most noticeably by management styles and technical arrangements. Networking is another external source for change. Moreover, we draw attention to the problems of coordination between different components of the industry, as questions might arise regarding the compatibility of a competitive dynamic within the industry and a wider aspiration to grow the capacity of the industry as a whole. Dis-coordination might happen when the regulatory framework has changed, but housing associations retain their old practices; or the organisations themselves have initiated new products or new markets, but are met by unwelcome funding and regulation constraints. Only when adequate resources are available and there is a supportive and stable institutional framework can a provider build its organisational capacity by attracting suitably skilled directors and staff. In particular, we regard stability in the supporting social-economic environment as a key precondition for capacity-building, as only with a stable funding stream and access to land to support a development pipeline, could it be tenable for provider organisations to build up development capacity.

While it is important for the sector as a whole to be creative and innovative, it may not be the best use of resources for every single project to be a complex innovation and cocktail of patched together funding. Punctuated evolution, as noted earlier, may be a more fruitful context for evolving capacities. We note that any such aspirations for the evolution of an effective housing association sector are likely to be fundamentally undermined within the context of Australia where short electoral cycles, political volatility, stop-start funding and associated policy reversals have often created a profoundly hostile operating context for housing non-profits. In the UK, it may be that the present disruptive period will fashion new capacities and there are signs that new times have fashioned new businesses (Maclennan and Chisholm 2013). However, in England there is also the worry that difficult 'one-size-fits-all' legislation is emerging which overlooks the different life stages of different HAs, and arguably has moved too far ahead of the tolerance range of this sector. We interviewed one despairing Chief Executive of a stock transfer HA formed by central government in 2015 that within a year was facing new right to buy arrangements, cutbacks in benefits to tenants, and government imposed annual (1%) rent reductions to 2020 as well as onerous energy sapping regulator–led reviews because new policies had driven their financial viability downwards. There is not much sense of evolving capacities and organisations in that policy framework. Figure 3 below depicts one scenario of the disharmony between the different layers of the AH industry, which arguably resembles the current situation in the UK.

Figure 3: One scenario of the evolutionary path between the core and the supporting components of the AH industry
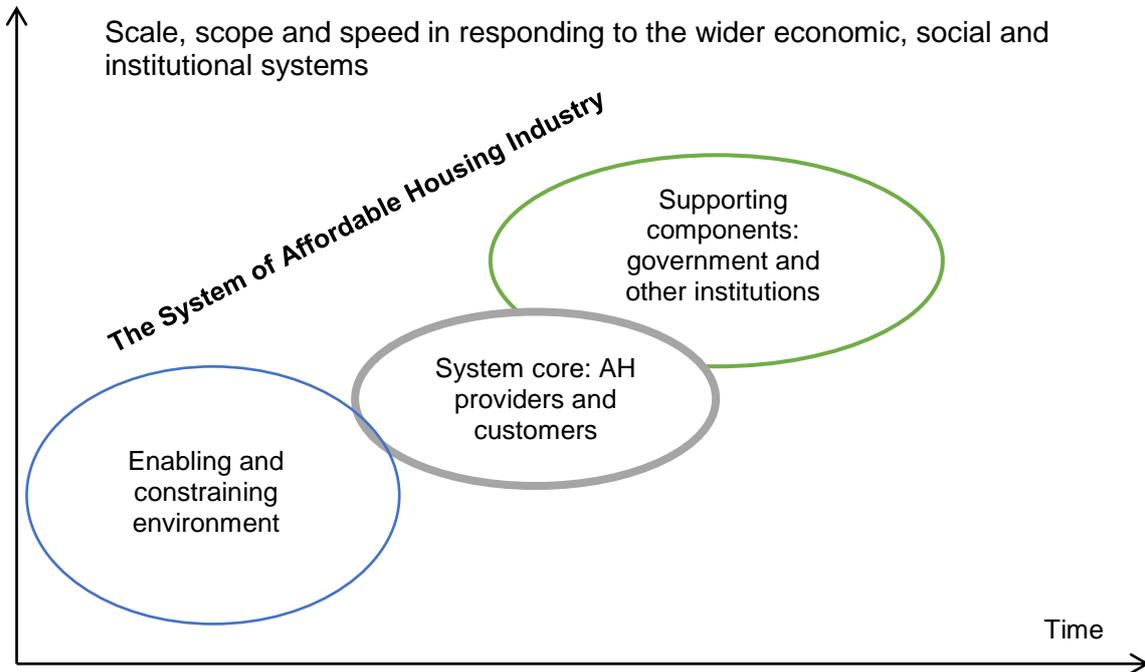
Source: The authors.

This chapter has aimed to set out a conceptualisation and clarification of the ideas pursued in this research, in particular 'transfer', 'dynamics', 'success' and 'capacities'. In the remainder of the report, we focus on our interview results. The early stages of management after achieving stock transfer are assessed in the next chapter and Chapter 4 looks at the unfolding, dynamic issues that interviewees emphasised. The final chapter draws conclusions together.

3   After transfer: formative stages and settling down

In this chapter we reviewed the transformative period that shaped the policies and procedures of transfers, the ballot process, and the immediate post transfer 'settling down' period. The key findings that emerged are:

- There had been a great deal of learning from past experiences about how to organise transfers, though perhaps much less about how to foster the organisations once-formed. There was also much evidence of the absence of organisational memories and that 'forgetting' is no less noticeable than remembering.

- In the formative stages of a stock transfer policy, the question of effective capacities relates to four broad sets of actors, namely, governments with stock transfer policies and aims, the selling landlord and the set of actors associated with them (politicians, staff, tenants), the buyer and the wider set of institutions and markets that make important contributions to the process. Each of these actors could impact the transfer process and all are evolving in their own ways.

- Most UK associations set up to take on stock transfers appear to have established and consolidated effectively. Keys to success involved staff leadership, evolving board capabilities, reshaping staff skills and cultures, effective tenant engagement, being prepared to face long periods of high debt in which cash flows had to be well managed and, finally, accessing low cost debt finance.

- However, as they consolidated, the context in which they operated altered, and as they survived and progressed, they created within their own organisations new capacities and opportunities. At that juncture the intelligence, creativity, flexibility and energy of the organisations became critical in shaping transformative changes in many organisations.

3.1   Remembering, telling the story

This chapter, and the next, are based upon a synthesis of what interviewees emphasised as important. Around a quarter of the interview participants preferred not to have quotes or opinions attributed to them as they are still involved in policy processes. Before turning to the substantive material of the project, two observations should be noted regarding the scope and nature of the interview–based material.

3.1.1 Successful transfers

When UK housing experts are asked to discuss 'successful' transfers, their first instinct, in most instances, is to talk about why transfer ballots failed or succeeded and then, but not in all instances, move on to reflect on the what shaped organisations that create better outcomes for housing and communities. This project is focused on the latter, long-term 'success' rather than winning ballots. However, and this needs to be clearly recognised in contrasting Australian and UK possibilities, the legal imperative for tenant ballots in the majority of UK stock transfers is a fundamental part of the process with longer term implications rather than a minor 'process

issue' difference. The requirement for buyers to make a clear and acceptable offer to tenants in what was invariably a complex political process requiring significant skills and energies, which has been discussed briefly in previous chapters. The process also required the potential landlord to make transparent and accountable offers to tenants regarding dwelling and service quality that had simply not existed within the council housing arrangements. The successful Glasgow ballot contrasted with the near simultaneous rejected proposals in Birmingham in 2002 brought into sharp relief these differences in the capacities of governments, sellers and buyers to frame offers and deliver successful ballots (Maclennan 2014), but they are not the direct interest of this study.

That said, the ballot process and consequences cannot be ignored, they required buyers and sellers to compete and offer in ways different from Australian states and, in consequence, the nature of the organisations formed, their roles, resources and reputations were shaped in ways that impacted their pathways to longer term success. In some UK transfer ballots the willingness of the seller or particular local circumstances, such as in Argyll where 90 per cent of tenants voted pro-transfer or in the Scottish Homes transfers, formed a context in which energies could be used to strengthen the capacities of the 'receiving landlord' to make a good start on action rather than simply win the ballot. More generally, it is likely that the organisational forms and capacities of a sector born out of tenants' choices will be different from that in which they have little say. In this chapter and the next it would be misleading not to allow for these influences.

3.1.2 Do people learn, remember from the past?

This narrative on stock transfers largely relies on the recollections of some of the key individuals involved in UK transfers. The interviews with key 'actors' and organisations made it clear that there had been a great deal of learning from past experiences about how to organise transfers, though perhaps much less about how to foster the organisations once-formed. There was also much evidence of the absence of organisational memories and that 'forgetting' is no less noticeable than remembering. It would also be fair from interviews with participants in recent transfers to conclude that not all past experiences had been fully assimilated into a consolidated body of practical, professional wisdom and that mistakes are repeated and learnings rediscovered over time.

These observations are evidenced by looking at two large stock transfer propositions. In the Glasgow Housing Association (GHA), formed out of the largest single stock transfer in the UK, few current staff could now recall its detailed, difficult origins and why it has the organisational forms and autonomies that it now has; yet the ongoing organisation has evolved and thrived. In some instances, forgetting past experiences (especially those involving significant conflicts) may be as important as remembering (however inconvenient this might be for researchers) for the organisations to transform.

In the currently active, and contentious, discussion on stock transfer possibilities in Northern Ireland, the atmosphere for change seems in many ways similar to Glasgow 15 years ago. Experienced consultants make critical contributions to the debate and the NIHE Board contains significant contributors with stock transfer experience in England. Yet it is also clear that not all of the key insights of past major transfers inform the different groups involved in the process, most obviously there is no clear political narrative for change, there are no major empowered participants located outside of the present public sector owner to champion the cause for change, and there is lack of clarity about what role tenants will play in the process. Even with very competent government and housing bureaucracies (with a strong producer interest), there is little pressure to shape a radical change in tenants' interests. There are obvious parallels with some Australian state housing providers.

The absence of organisational memory applies to governments too, with the responsible government Department in England, DCLG, now with few staff with any familiarity with stock

transfers and with much reduced analytical capacities and research resources to assess past approaches and, if any, future prospects. In Scotland the transition of Scottish Homes into a government agency, Communities Scotland, which then too disappeared by 2007, was regarded by those interviewed as not only scrapping stock transfer as an area of policy expertise and interest but of the intellectual capital required to run such processes. Far from being an ongoing process of steady expansion, affordable housing industry capacity has in fact declined significantly as a result.

Our review indicates a worrying lack of government knowledge of the systems it has created. Past knowledge largely lies with seasoned consultants and applied researchers. Several interviewees expressed the view that central government departments in London developed their stock transfer approaches when they had a serious, well informed housing policy with significant thinking capacity, and research capacity that was actively used. These times have changed and housing association policy in England, since 2012, has been chaotic and without much attention to evidence (and suggestive of the possibility that the political networking capacity by the sector as a whole has been ineffectual, see further below).

In Australia, with little past experience of stock transfer to carryover from some more intensive period of housing policy effort, there needs to be attention given to the capacities of state political and administrative systems to formulate and deliver strategies to reshape social housing provision. Offices of Housing, and even Ministers for Public Housing can face conflicts of interest in these assessments of alternatives and it is not clear that there is substantive experience within all states to pursue these issues effectively.

This study has embraced an evolutionary perspective. In the formative stages of a stock transfer policy, or even a single stock transfer, the question of effective capacities relates to four, broad different sets of actors, namely, governments with stock transfer policies and aims, the selling landlord and the set of actors associated with them (politicians, staff, tenants), the buyer and the wider set of institutions and markets that make important contributions to the process. Similar groupings also matter in subsequent evolutionary phases but their roles and relative weightings may differ. We will briefly discuss their roles and capabilities developed in what follows.

3.2 Governments: policy and successful starts

3.2.1 A multi-order government system

In this section we focus upon governments not as the direct seller of public housing, but as the enabler of such actions that set the policy frameworks for public landlords making choices between retaining and disposing of their stock. In some instances, as for the UK and Scottish Governments, a government may not directly hold public housing stock and is not 'conflicted' in strategic enabling and provision roles. Some government bodies, such as Scottish Homes in the 1990s and currently the NIHE, like Australian states, have both wider housing enabling roles, including the promotion of the association sector, and ownership of public housing within the same organisation. In such settings, significant conflicts of interests can arise within organisations and these are addressed in the next section dealing with state and local governments as 'sellers'.

The government policy framework for public housing futures and stock transfers raises key questions about the political vision and style and the balance of, to paraphrase David Hume, passion (ideology) and reason (open-mindeness, evidence) in making key choices about policy directions and resources. Vision, strategy and delivery of effective housing transfer policies also draws attention to the capacities of the bureaucracy and its delivery agencies, to set our future possibilities, the costs and benefits of change, the strategy for moving forward and the means to deliver the objectives sought by government. This is a demanding set of

capacities facing governments, both politicians and bureaucrats alike, that wish to enable stock transfer choices. Because a stock transfer has both complex and long-lasting effects that often involve clear choices between different interest groups, the different, but connected, milieu, of representative, participative and trade union politics are inherent and important.

Where significant transformation of a large-scale public housing system is attempted, the issue is of considerable national and regional political significance. Transforming the public housing sector was a major housing policy of UK government from the end of the 1970s until 2010. At the regional scale, for instance, the Glasgow housing transfer was regarded by the first Scottish Government after devolution as one of its five most important projects. Stock transfer issues in Glasgow or Belfast or Sunderland or Birmingham were important national political issues in ways that are unlikely to have such extensive resonance in Australian states as these sectors are now so small, even within major metropolitan areas.

The review of UK experience, in seeking to assess government's policy roles and successes in relation to stock transfer, starts from the question: What does each order of government want from the process, what are the autonomies that each order of government can, individually, use to pursue these goals? And what are their capacities to do so? In multi-order systems of government, the further question arises as to how effectively the goals and capacities of different orders of government are aligned or whether they frustrate each other.

The UK interviewees stressed the fundamental importance of 'higher' orders of government having a clear sense of why housing stock transfers should be a policy choice. They also stressed that national and devolved governments (or federal and state in the Australian context) have to set out clear 'rules of the game' (to facilitate transfer choices) in relation to the aspects of transfers for which they have policy autonomies. This included, in the UK, issues such as national definitions of public expenditure, differential patterns of tax exemptions in public and non-profit sectors (VAT for instance), the design of social security supports relating to public and non-profit rents, legislation to protect employees in the transfer of undertakings (known as TUPE in the UK), the nature of legislation relating to non-profit and charitable status, and the regulation of the financial sector and construction sectors.

British experience also highlighted the importance of being clear on the nature of how national/federal actions about housing outcomes and provision systems impact local decisions to retain or transfer housing stock. For instance, in England, national policy decisions imposing a 'decent standard' target for public housing provision and management, but without committing public funding to the task and later, reform of the accounting definitions for public housing both changed the choices confronting local politicians.

These paragraphs suggest that Australia would acquire benefit from a systematic auditing of how Federal policies impinge on state actions re transfers and that both Federal and State governments in Australia need to be clear on how stock transfers might serve their wider housing objectives.

3.2.2 Key lessons emerged

Governments, at the UK level (and Scotland too) were very clear on stock transfer issues from 1985–2010. At the national level they were supported by a series of what the majority of interviewees regarded as very capable housing ministers, providing real political leadership, who had resisted their different parties' traditional, and different, ideologies of social housing ownership. Most Conservative Ministers (William Waldegrave, Sir George Young and David Currie) resisted privatisation and Labour Ministers (Hilary Armstrong and Nick Raynsford) were willing to promote the transfer of council housing throughout the period from 1997 to 2010. A stable, if evolving, policy regime over a protracted period was essential to developing a substantively new sector of provision. Looking back to what worked in the UK, it seems valid to question whether, in Australia, different orders of government do have real clarity about how

stock transfers mesh with their housing policy aims and whether there is sufficient cross-party consensus on the suitability of transfer as a policy response to the deteriorating condition of public housing. Alternatively, are there sufficient institutions and incentives embedded within the policy system to ensure a longer term perspective? Or is the effective use of social housing stock lost in a highly politicised ideology of ownership those changes with political party shifts as needs rise and stock numbers and quality decline?

The experts interviewed were clear and quite consistent in recalling and commenting, positively, on the ways in which UK governments facilitated the establishment and built the capacities of stock transfer associations and, more negatively, on the limitations of the policy frameworks. The key points that emerged were:

- After 1974, UK governments deliberately fostered a larger, accountable and more efficient not-for-profit sector to develop non-market homes using private loan finance (after 1989) that had significant national roles before it became the key recipients for transferred public sector stock; the government, from the outset, took a commendably long, positive view about the development of the sector and was committed to the transformation of the council housing sector so that there was a stable, but evolving, national policy framework with clear national leadership.

- From the outset, national government was relaxed about regional variations in the basic approach across the (now) devolved administrations; the exception was Northern Ireland where, until the Peace Agreement of a decade ago, there was an unwillingness to fund local or community based housing groups.

- At UK and regional levels there were serious, well-informed housing policies supported with significant thinking and research capacity that was actively used.

- There was a long succession of high quality Housing Ministers from both national parties of government who believed that neither complete privatisation of council housing nor a return to large-scale construction of new public housing was the best way forward for the expansion of low-income rental housing in the UK.

- The housing association sector, through its peak bodies, was effective in its political networking to sustain this favourable view on the part of governments at least until 2012–13 (though this raises questions about the current political capacity of housing associations at national as well as local and state scales).

- The national government established a favourable framework for forming the financial bases of stock transfer bids:

  — Support for low-income tenants related to their 'housing benefit' status that applied across all rental tenures so that there was no shift in tenant subsidy regimes on moving from council to associations' tenancies and, in Scotland, the government aligned most of the major tenancy rights of housing association and council tenants in 2000 (to remove unnecessary obstacles to the success of the Glasgow transfer).

  — The rules for pricing housing transfers, after the early years of policy, were consistent across time, and regions; houses (and the land on which they stood) were to be valued as if occupied by social sector tenants and the management and maintenance costs assumed to be at 'efficient' levels for equivalent landlords to meet agreed standards of management and maintenance (the limits of this approach, noted above, are discussed further below)

  — The regulatory framework implemented by the Housing Corporation (HC) and by Scottish Homes from 1989 was regarded by private lenders as an important source of comfort to them; although the HC was not an explicit guarantor of association borrowing, its active, interventionist regulatory stance (until recent years) was interpreted by lenders as a

commitment to 'manage away' (through facilitated takeover and merger) any private debt repayment problems.

— The HC took an active role in networking the capacities of the association sector and the lending interests of private financial institutions and their bridging capacities to create essential new links that steadily lowered margins charged on stock transfer loans in the first decade of policy; these efforts transformed financial capacities within housing associations and with £80 billion of private loan debt now in the UK sector, raised by a range of means and with relatively fine margins over base interest rates (LIBOR), this was a major and lasting contribution by government agencies in making new markets.

— The HC in 1987, with support from the UK Government, also jointly promoted, with the industry 'peak body', the National Federation of Housing Associations (NFHA), the development of The Housing Finance Corporation (THFC): the key role of THFC was to directly access capital markets and access tranches of debt finance that groups or syndicates of housing associations, individually too small to use the bond markets, could share. THFC was an innovative policy idea but experts interviewed believed it was under-capitalised and consequently limited in its effectiveness.

— Related to this last point, the HC also strongly supported the growth and use, by all involved in transfers, of a high quality consulting sector that brought new skills in finance, in particular, to both sellers and buyers (and indeed governments too). It is that sector that now holds the knowledge learned over the last 25 years.

• The delivery of policy through the government's agency Housing Corporation, and its successor and regional equivalents, significantly raised the capacity of governments to deliver policy goals at local levels. Experts raised some doubts about the financial leadership capacities of these quangos but recognised that, aside from the bridging and monitoring benefits noted above, its critical roles included:

— Approving the registration of stock transfer recipients and their business plans, though a former Board member of the Housing Corporation felt that the HC was so driven by government policy that it was unlikely to reject proposals to develop transfer vehicles, although governance proposals received significant attention and scrutiny.

— The HC was a critical friend to existing and emerging associations so that where the existing dominant local producer interest of council could be challenged by its power and capabilities in a way that more isolated, unsupported associations would find difficult; the absence of this critical friend role is apparent in current stock transfer processes in Northern Ireland where any near equivalent to the HC role is missing.

— The HC, which had experienced housing professionals on its staff (skills not usually found within government departments) helped some associations form, as did Scottish Homes in Scotland, by seconding experienced staff to implant new ideas and approaches within some emerging associations (see earlier reference to McDermont 2010) or areas where particular problems prevailed. They explicitly recognised that they were in the business of building organisations and the capacities within them (including roles for tenants and education for staff).

Experts interviewed also highlighted a Housing Corporation approach to grants and efficiency that have had interesting longer term effects on the financial capacities of associations. They took the view that in supporting the traditional association sector, the HC rarely sought to minimise grant rates, recognising that capital grants (called HAG, then Social Housing Grant (SHG)) built a capital/equity base for associations that could be used (or even recouped) in the future (and this has become a very important issue post-2010). These experts with financial background were very clear that the rules of the game for valuing transfers were similarly generous to recipients and allowed, with competent future management, not just headroom for

homes to be improved but for efficient organisations to generate surpluses and raise asset values; this implies, critically, that the support system built in a long-term resource capacity for associations to evolve (see next chapter). Rules and procedures adopted about approving future rent levels for non-profits receiving stock also simplified transactions and reduced uncertainties for tenants. In general, rents were initially set at much the same level as pre-transfer and then rolled forward at RPI plus 1 per cent.

Experts commented that allowance systems for management and maintenance costs did little to encourage efficiency in cost management. They concurred that the approach of government had been to build a sector that had a chance of long-term sustainability and success rather than concentrate on the short-term 'least cost' model. A number of those involved in the processes in the 1990s noted that government took a similarly relaxed attitude to early stock transfer valuations in order to start a process and learn from it. These margins in cost assumptions and valuations have given scope to efficient providers to generate surpluses and develop new roles, but with the downside that the sector as a whole still lacks a clear efficiency ethos (some choose to be efficient, but neither the systems of regulation nor government finance drive sector efficiency).

It was noted above that UK governments had clear, if changing, goals for the sector and for stock transfers. However, there was a widespread sentiment from interviewees that, while individual stock transfers involved very clear offers and intended 'outcome' statements, in contrast, within governments, at UK and devolved administration levels, overall stock transfer policy lacked a clear outcomes framework. This was true of Scottish Homes and two experts noted that within DCLG (and its predecessors) there is no systematic evidence base on what occurred in the past and the outcomes achieved. Detailed policy learning capacity has to be driven by monitoring what is related to stated, intended outcomes of policies. UK governments, despite quite extensive monitoring of individual association performances, have not developed that capacity for the housing association sector as a whole, neither at metropolitan nor national scales. Perhaps Australia should.

Over time, and especially since 2010, the involvement, budgets and power of government agencies has been greatly reduced and a lighter touch approach to regulation and monitoring adopted. Both these changes may be appropriate for the new times with associations having to look more to their own assets and efficiencies to develop new opportunities and regulatory burden reduced. Aside from the comments above on efficiency, it is also notable that the policy system was strongly top-down with the UK Government, through its agencies, capable of shaping change in local neighbourhoods and communities. In the UK, the growth in advocacy of 'localism' in this millennium has been associated with a shift back in some powers from government agencies to municipalities. Such arguments underpinned the abolition of Communities Scotland, the successor to Scottish Homes, in 2008. It is only really in relation to regulation roles that the agencies now reach down to local associations and, in consequence, it would be unlikely that the UK governments could now successfully create the sector that evolved to 2010. Australian state governments may also lack such reach where their offices of public housing simply focus of managing stock and not reshaping the housing system. Given the large and complex roles housing plays in shaping the key outcome objectives espoused by modern governments (competitiveness, cohesion/inclusion and environmental sustainability), it is worrisome that in some of Australia's largest states, most beset by unaffordable housing outcomes, that there is no longer even an identifiable 'office of housing' or 'housing' department within the structure of government.

Looking over the evidence of the previous paragraphs, the UK Government and its agencies recognised non-profits as an 'infant industry' and provided a supportive framework to establish them, particularly where they were likely to face local political difficulties in challenging the dominance of municipal public housing. The non-profit sectors developed in the UK were

extensively 'birthed and nannied' by national level agencies, such as the Housing Corporation and Scottish Homes. In Northern Ireland, a leading association director noted that nobody looks after associations, in that way, in NI: in England HCA does, in Scotland politicians do. This is very important and it may be appropriate to ask: Who does this in Australia? Who promotes the image of the sector? Who raises its contestability capacity? Who ensures that it is not out-manoeuvred by existing 'producer interests' as in Northern Ireland, it was noted by associations that key politicians, the Members of the Legislative Assembly, regard themselves as 'owning' public housing, but don't grasp the ways in which associations are accountable to them.

- The interviews highlighted what happens to stock transfer debates and outcomes in the current context, and where the transfer support system has been greatly curtailed. In Northern Ireland, with a very competent and informed government bureaucracy, progress towards stock transfer is slow, even stalled, largely because there is no powerful champion in favour of the change. NIHE does not appear to have the appetite for transfer that Scottish Homes had in the 1990s.

- In England, the recent difficult experiences of Gloucester Homes, formed by stock transfer of the city's municipal homes in 2015, illustrates the consequences of unsupportive central policy frameworks. After setting their stock values according to government 'rules of the game' in 2015, and making clear offers to tenants, within a year of their formation they operate in a context where central government has forced upon them a 1 per cent per annum rent reduction (a major problem for an early phase debt financed organisation), opened them up to RTB stock reductions and, having essentially made the association financially riskier, swamped it with regulatory scrutiny and costly responses. This is no way to shape a new housing system. Hard-working staff are demoralised and they will fail the offers to tenants unless circumstances change.

This makes the point about the salience of supportive and stable policy regimes, but it also highlights how quickly governments can forget what they knew.

3.3 Capabilities of sellers

3.3.1 Different contexts

While national or higher order governments have key roles in setting the policy frameworks for stock transfers, it is the aims and abilities of the government entities that own public housing that drive the extent and timing of stock transfers. It is their decision to hold, transform or transfer their assets. Transferors differed in their goals for their public housing stock. They required different capacities to achieve the kind of transfer they wished and they had quite different existing capabilities to envisage and deliver stock transfers. They differ in context, aims and competences. There is no single 'capacities needed' checklist for stock transfers.

Political capacities are critical within selling organisations and the UK experience demonstrates how political choices and constraints also differed across organisations. Scottish Homes, as a large national agency reporting to a Board of unelected 'experts', although responsible to Ministers (supportive of stock transfers), faced a very different set of local political checks on their actions from locally elected councillors dealing with LSVT. They also employed some of the best technical and financial competences with experience in the non-profit sector available, not least because they had the role of promoting and supporting the non-profit sector in Scotland. NIHE differs in that it has little past experience of dealing with non-profits, has no role in promoting them and operates in a wider political environment without a clear view about stock transfers.

Municipalities, the shapers of LSVTs, had stock that was overseen by local councillors. Councillors were usually organised on party lines, at least in most urban areas, that meshed

directly into national political parties. Therefore, local decisions were often influenced by wider political beliefs and pressures. Some authorities, like Glasgow and Sunderland, were large councils with significant scale housing departments and high quality staff, whereas many smaller councils had less experience of making 'major strategic' decisions.

Stock transfers also differed in their timing, which had two important implications for sale/retain processes. First, the policy/financial imperatives to consider transfer changed over time. The earliest transfers took place largely because more affluent, suburban authorities sought to end their local tax contributions to council housing (that were not made to associations on a compulsory basis), but by the later 1990s a new interest in communities and regeneration had led to more partial transfers as well as full LSVT. The prospect of residual debt-write-off (as the UK Treasury, in the halcyon days of budget surplus, ran a public–sector wide program to repay public debt) for a short period in the early years of the millennium also stimulated transfer interest and was crucial to the Glasgow case. As noted earlier, after 2003 the imposition of targets to meet the Decent Homes Standard for councils induced either transfer to non-profits or ALMOs as a response. After 2010 a few transfers, such as in Durham County, took place to rationalise what had become a quite complex local housing governance of co-existing ALMOs, council management and associations. Later transfers therefore took place, often, in local contexts where non-profits were already located and had established competences and reputations and, importantly, tenants prepared to advocate their 'model' to council tenants on nearby estates. Stock transfer proposals arose in quite different contexts of past experience, energy for change and appetite for political conflict.

3.3.2 Political capacities

In many LSVT transfers, the first discussions of the possibilities for transfer arose within the senior management group of housing department officials. Preliminary work on transfer possibilities would often be undertaken before being discussed informally with political leaders and before being subjected to wider political and public debate. The competences and consistency of the local politicians involved in stock transfers was essential both to the success of ballots and the prospects and structures of the non-profit provision that emerged from the process. The complex set of stakeholders involved and the importance of the ballot process meant that there had to be a very active management of local politics by local political leaders as well as a clear narrative for change that was specific about transfer aims and likely consequences. Local politicians faced political challenges that arose from:

- Individual councillors, or sub-groups, opposed to transfer.

- Wider, national party interests in the 'purity' of processes, or opposition parties uncommitted to stock transfer processes.

- Staff unwilling to transfer raising objections through their unions: at the national scale trade unions involved in the processes in the UK invariably opposed stock transfers at the behest of public building workers; in some local transfers, in contrast, local union branches having examined the transfer offers disregarded the national ideology and actively backed transfers that were seen to be beneficial to both staff and tenants; it was essential, but often neglected, that understanding of the potential benefits of transfers would be explained to trade unions and this is a potentially important issue in Australia.

- Individual tenants either strongly anti or pro-transfer, as well as representative local community groups.

While managing these different political interests, councillors, often advised by their own Directors of Housing, had to take a number of key decisions about stock transfer strategy and delivery. Before taking stock transfer discussions into the public domain, local political leaders had to decide whether there was a clear prima facie case for undertaking the transfer process.

In some places, staff leaders within the council housing department might bring these possibilities to the attention of political leaders. In others it was external champions who first began to shift the opinions of council leaders.

The first capacity required of political leaders was the ability to recognise, and have an early narrative explaining that their existing housing provision arrangements either did not use resources effectively or that there were alternative arrangements that made greater flows of resources or subsidies for housing available to them, which would help to maintain and/or improve housing stock, management services and tenant involvement. Some might even take the view that transfer allowed a more orderly context to plan housing investment, revenues and costs and make these decisions to serve housing customer interests rather than wider local political interests. The key recognition was that defending the organisational status quo might be ideologically comfortable, but it did not offer the prospect of improving homes. Bill Fullen, Director of County Durham Homes, emphasised that constructing a convincing counter-factual to present arrangements was the first key step to stock transfer.

The second set of decisions required politically-led redesign of bureaucrats' roles through a transfer process. This involved ensuring in the design and evaluation of the stock transfer that local taxpayer and tenant interests were not compromised by the producer interest of existing housing staff and associated council building departments (Direct Labour Organisations (DLOs)). Scottish Homes, recognising this 'producer interest' from its own housing management staff, set up a Stock Transfer Initiative Unit that was ring-fenced from the normal 'public housing business'. That Unit reported directly to the Chief Executive rather than the Director for Housing Management. Where, as was typically the case, councils were undertaking a management-buy-out (MBO), there was usually some clear, similar separation of interests. Where stock was tendered in open competition less clear separations occurred.

Within Australian states, like in the Scottish Homes transfer, there are three areas of staff interest: housing managers have a clear producer interest; state finance and strategy officials have to develop transfer strategies that meet state aims and evaluate potential alternative landlords; staff who undertake the continuing wider housing policy functions, such as dealing with homelessness and first home ownership, have to be seen as a separate enabling group. Politicians have to ensure that there is a central agency overviewing the transfer process and that the interests of producer staff, tenant consumers and taxpayers are clearly and fairly identified.

A third key political decision, following from the 'why' and 'how' choices noted above, was the 'what' question. Politicians had to decide what they were going to transfer. A major initial decision, as most councils had DLOs that had council housing repairs as their major activity, was whether or not to transfer the DLO with the housing stock. Transferring housing required a linked set of decisions about the future roles and ownership of DLOs. The second was to consider the extent and form of transfer. LSVT envisaged 'whole' stock transfer with all council properties transferred in a single ballot process (though subject to the 5000 property limit for receiving landlords until the start of the millennium). By the late 1990s English councils were also encouraged to undertake (partial) Estate Regeneration Transfers that prioritised action on the most rundown estates and that followed Scottish practice from a decade earlier that had encouraged 'community ownership' of poor estates after 1988.

- Scottish Homes had the luxury of aiming to transfer all of its stock, but to do so in a strategic fashion spread over almost a decade. NIHE, where overall transfer seems stalled, has transferred 2000 homes in estate-based transfers of 150–450 houses. Government has approved this approach as an incremental approach building non-profit capacities, but the NI Audit Office have questioned whether all of these new providers are too small (small is defined as less than 500 units in NI). In Glasgow, prior to the whole stock transfer in 2002, some 14,000 units had been transferred in a similar fashion in Glasgow. These places

provided a key demonstrator and influencer for the 'big transfer' when it happened, so the dynamic matters.

- Alan Murie, commenting on transfers in Birmingham, noted that Optima HA was developed in 1997–98 to redevelop and regenerate 3,500 properties organised in five adjacent states and previously owned by Birmingham City Council. The transfer had been strongly locally supported and successful. Given the subsequent failures to promote 'whole stock' transfer in Birmingham, Murie mused that BCC might have been better to promote a phased series of smaller transfers (though similar views were resisted elsewhere as they reduce the possibilities for cross-subsidisation between different areas of stock).

A strategy of sequential small transfers, especially if seen as a starting point for a new system that might later evolve required organisational scale as it matured, contrast with short-term whole transfers in a number of different ways that matter to both political and organisational cases for change. Notably:

- Where councils were able to transfer difficult estates to non-profits, this was seen as the non-profit sector helping them with their acute problems but not, as in full stock transfers, taking away what they often saw as their raison d'etre.

- Where transfers were estate based, tenants and community groups often had strong 'participatory' political leaders with real voice so that councillors, some troubled by party ideologies, were able to cite the tenant led drive to improve their homes and neighbourhoods and be empowered in the process.

- Successive small transfers allowed existing but recently formed non-profits to grow over time, learning to 'walk' before they 'ran'.

- It avoided bottlenecks in making demands upon government, agencies and the private consulting sector.

- It allowed transfer participants, from communities to lenders, to see how prototypes developed and lessons for policy and practice could be learned.

After 2002 in England, as noted in Chapter 1, councils also had to make the choice of whether to transfer housing assets, to non-profits, or to transfer management in contracts to ALMOs. This was, especially where there was a strong trade union influence naturally disposed to defend ongoing public asset ownership, a politically easier solution that has improved management, but not unleashed new finance and new activities.

Local politicians also had to look forward to the post-transfer local housing system and their role within it and this involved at least three strategic concerns. They had to be clear how they would discharge their continuing housing policy functions, whether partial transfers would be obligated to receive some share of council housing nominees, or how they would contribute to address homelessness (that remained a statutory duty of councils in the UK) and this involved clarifying legal obligations of non-profits and writing some issues into sales contracts.

A second concern was councillor roles on transfer receiving HA boards. In England a norm of a third of initial board positions was adopted but in Scotland there were more varied outcomes but, as in Glasgow, government resisted approving transfers in which councillors constituted a board minority. The third issue was whether to engage in partnerships with the new provider or hold it at arms-length without supportive actions in council networks, land deals and the like. Stock transfers in Australian states raises question of how state and local housing systems will be governed in what, compared to the UK, is already a very stripped-down resourcing of housing functions within many state governments.

As the transfer progressed, even after ballot until successful completion, they had to have the capacity to keep learning to:

- Understand complex issues about stock valuation and finance for different transfer options; this was not an area with which politicians in the UK were very familiar.

- Strengthen their enabling roles and capacities, and experience in this regard ranged, according to our interviewees, from awful, uninterested councillor involvement to first rate strategic and enabling leadership.

- Recognise that some of their employees might not share their transfer vision and, as they were in a position of trust and familiarity with tenants, were able to frustrate change.

There is a major challenge, wherever transfer takes place, to ensure that political decision-takers have the evidence and support to have the capacity to make 'wider' interest decisions on behalf of all their polity. Is this the setting that prevails in Australia?

Politicians then have a demanding task requiring significant capacities. To progress towards a successful transfer ballot, they need a vision for local system change, the capacity to take external views and advice, the ability to lead the restructure of their own housing departments and functions, and the skills to preside over a fair process and ultimately construct an acceptable offer to tenants, their staff and, in effect, higher order governments that generates a stock disposal price that meets their ambitions too.

3.3.3 The capacities and roles of bureaucracies

The capabilities required of staff in transferring landlords both replicated and underpinned the skills of politicians, at least for the 'strategic-enabling' staff. They required working with councillors to review alternative models, to network with policy-makers in government and with other councils transferring staff to get a sense of challenges and possibilities. They also required a capacity to understand what they did not know and to engage consultants to seek key skills. These key skills required addressing major issues that some councils had ignored in the past. Few had ever valued their stock, and many had not undertaken major or recent studies of stock quality and disrepair. Many had not developed extensive tenant engagement strategies and with a statutory responsibility that tenants would be well, and independently, informed about possible choices, they usually engaged tenant advisers. Information and skills to cost alternative local system models were largely missing. The stock transfer process meant step change in professional competences for many of the local authority teams running council housing strategies in the UK.

Housing management staff had to keep delivering the housing service. It was also important that, as noted above, they were not given free rein to brief tenants they engaged with about 'the limitations' of associations but, reportedly, this was a widespread issue that simply served producer interest (though may have been counter-productive to that interest where tenants took a poor view of services delivered), and subsequently complicated staff integration into new providers if transfers then took place. Where stock transfer was essentially to an MBO, or in some Scottish Homes transfers to bids made jointly between tenants and local staff, there were fewer conflicts and much easier processes of change. The greatest difficulties were where a landlord originating outside of the local council or seller was, in effect, competing to buy stock, though this was mainly an issue in partial transfers and became less important over time as more tenant groups and advisers recognised that established non-profits could offer good services.

For stock transfers to be relatively trouble-free processes, council staff had to have a competent strategy, a clear set of processes and a cooperative approach to change. The housing associations interviewed in Scotland felt that these approaches and attitudes of the transferor were absolutely critical in shaping not just the roles but the capacities of the new organisations. They felt that after early difficulties and revisions in procedures in Scotland, Scottish Homes had developed the capacities to conduct a fair and efficient transfer process that gave access and

clarity to the recipient organisations. Associations currently operating in Northern Ireland have a much bleaker view of NIHE. Two Directors and two officials from NIFHA, interviewed separately commented that NIHE seem uncommitted to transferring any non-problematic stock and that progress is so slow that most associations do not factor possible stock transfers into their business planning. The ways in which Australian states bureaucrats help or hinder non-profit interest should be established.

The staff associated with managing the tranches of stock being assessed for transfer faced significant uncertainties about their jobs, and in a significant number of areas where council housing existed on a large scale, or in rural areas, council jobs were seen as an important source of secure and, often, reasonably paid employment. A number of policy actions gave some reassurance to council staff facing transfer. First, UK legislation in relation to the transfer of undertakings (TUPE) required that staff be transferred along with the functions they undertook. Second, MBO possibilities were attractive to some staff—especially some senior managers who relished the prospect of being able to operate in a less politically constrained way or, at least, in a less political environment. Third, although there were variations across the UK, unions operating in the housing association sector had generally secured wage and salary deals as generous as those prevailing in the council sector so wage cuts were not likely—even beyond the TUPE period. The skills of the staff transferred are discussed below but there were, as noted in Chapter 2, no human capital audits before stock transfer was completed.

Council staff, in enabling and provision roles, along with non-profit staff, politicians, government officials and independent advisers all played important roles in shaping the nature of tenant engagement and views in the ballot process and we now turn to this issue.

3.4 Tenants and ballots: raising costs or capacities

Council-wide LSVTs and smaller transfers in the UK required a majority in favour of the tenants that voted in ballots. When British interviewees were appraised that tenant ballots were not a feature of stock transfers in Australia they usually had two, contrasting reactions. One, a recognition that this would reduce complexity, costs and contention in the transfer process. However, associations, and indeed other participants, had a second view. Namely, that the ballot process, like the design of a successful business plan for financial institutions, had actually tested the skills of the putative landlords and had raised the capacities of tenant groups engaged in housing issues. All the senior association staff interviewed highlighted that the tenant education/information/consultation/ballot had been critical to a good start of the new landlord.

Prior to the 1990s, there was minimal tenant engagement in the management of public housing in the UK, as noted in the Maclennan, Clapham et al. (1989) report. That began to change, not least as community-based housing associations in Scotland and successful tenant involvement in the Priority Estates Project (PEP) restate regeneration programs in England gave a louder 'voice' to tenants' interests (National Audit Office 2003; Audit Scotland 2006). Giving tenants the right to vote in transfer ballots was a reflection of national government views that tenant consultation should be more widespread, though there was also a view in government that asking tenants legitimated stock transfer requests in more traditional public housing councils and countered the inaccurate, 'privatisation' critique of anti-transfer lobbies. The housing arrangements proposed in stock transfer offers usually presented tenants more opportunities for empowerment than within their council landlord frameworks. Stock transfer gave tenants a voice about their priorities that had often not been heard in council ownership, and that had amended plans and priorities in the transfer process.

The prospect of more voice would have attracted few tenants if it had not been accompanied by a substantive offer about improvement, services, rents and security of tenure. Purchasing

associations had to make attractive yet credible offers to tenants and this required them to know what tenants would wish and prioritise in future services and improvements within the financial envelopes available.

- Robert Grundy (of property company, Savills) noted that purchasers had to be careful to work out the cost of each of the elements of offers and then, equally critically, to communicate them clearly to tenants. He noted that the (subsequently failed) Birmingham offer contained a commitment to improve 27,000 properties but with no clear indication of which residences were involved and which tenants would benefit. This was in marked contrast to the Glasgow transfer where tenants were guaranteed a new standard of service and a clear offer on when their property would be improved and to what extent.

- Peter Walls (CEO of Gentoo Housing—the association that received Sunderland Council Housing in 2001) made similar observations. After Sunderland Council's intensive consultation process with 43,000 tenants and independent advice there was a 73 per cent ballot turnout and an 88 per cent 'yes' vote in England's poorest Metro council. Calculation and communication capacities were required in making stock transfer offers successful.

Also important was tenant confidence in the offer in the extent to which they trusted the council and the new landlord. Government supported the appointment of independent tenants' advisers, such as the Tenant Participation Advisory Service, to inform and support tenants groups through the transfer process. Tenants were also influenced by federations of housing association tenants who briefed them on their experiences in the non-profit sector. Consultants involved in condition surveys, valuation and finance also engaged with tenants' leaders recognising that tenants had to understand and be convinced by the plans on offer.

- Robert Grundy noted that tenants had to be convinced that the HA had to come in to 'do the lift up' but the reality was that because the residences had been deteriorating for so long, they just didn't readily believe that could happen. Savills started working with a small influential community group just to show them the cash flow and how the model could work. He believed working with tenants was the key to inform their choices.

- Alan Murie noted that in order to secure ballot success in their smaller scale transfer in Birmingham, Optima HA had made detailed, street-by-street and block-by-block 'offers' to tenants, and that allowed not only the tenant's advisers to speak to a good case, it also meant that the really significant voices of locally activist politicians (capacity for local voice) and active, entrepreneurial local development leaders (local social or community entrepreneurs) could support the transfer and make it happen.

- Alistair Macgregor in rural Argyll noted that staff spoke to more than 90 per cent of potential tenants in their own homes or doorsteps and, aside from building trust, they acquired a detailed knowledge of what is then needed and has to be delivered to make the transfer a success for customers.

These intensive tenant-oriented engagements were also typical of smaller scale stock transfers throughout the UK and most were successful. In Glasgow, where this approach was practised more widely than anywhere in the UK, it was often but not always successful and in some of the poorest, excluded neighbourhoods (but by no means all) there were limited capacities for community engagement. Audits of community capacities, arguably, need to feature more as models for change are implemented.

NIHE, unusually in the UK, does not require a ballot of tenants. There is currently no national tenant association in NI. The responsible government department has yet to devise a tenant participation strategy for any potential stock transfer of the NIHE stock, and this is in a context where community-based housing efforts have been weak compared to the rest of the UK. NI housing associations are strongly pro-tenant involvement, but this has tended to be concerned

with informing tenants rather than engaging them in decisions (they are still on the lowest rungs of Arnstein's ladder!).

Australian states may avoid costs by omitting a ballot process, but there was a widespread view among the experts we interviewed that the ballot-oriented tenant engagement process had really fostered not just a positive ballot outcome, but a new start that facilitated organisational success in the years ahead. Aside from deriving a 'customer' view of investment and service changes required, they felt that engagement gave the new organisation credibility in the community. Professor Anne Power (London School of Economics), a well-known tenant empowerment advocate, felt this was particularly important in imparting a tenant perspective into LSVT transfers as 'larger, whole-stock transfer proposals were top-down politically led (albeit to achieve estate change). In contrast in smaller, estate-led change, on the worst estates, there were other ways to secure engagement as it was tenants groups who took the lead in 'saving' their estate'. In general, she believed, that transfer HAs have strengthened tenant involvement, but not to a significantly greater extent than ALMOs. In large and small scale transfers, tenant representation on Boards of newly created HAs was significant, at least in the short term.

In effect, the ballot process often gave a new momentum and confidence for tenants and boosted tenants' trust in their new landlord. Many of the experts interviewed believed that the ballot process had made officials and politicians sharpen their understanding and offer. The strong endorsement provided by a majority vote in favour allowed the association and local politicians to move on to effective delivery and to act with confidence about what to do and how to do it. All these outcomes increased organisational capacities for the new landlord as they commenced their new roles.

Does Australian debate about and practice for stock transfers need to give more attention to tenant engagement in transfer processes and in the subsequent management of homes and communities? Is there an intention to shape more customer-oriented and dynamic local organisations with wider roles engaged with their tenants or is transfer just a state-led carve up of the existing producer interests?

Peter Walls, who had led the biggest stock transfer in England, in Sunderland, succinctly summed up the shaping of a successful stock transfer deal as being like creating a three-legged stool with tenants, politicians and consultants being the three legs. The stool needed to be well balanced and all three legs developed at the same time. Stock transfer is never an easy process. We now turn to what aspects of non-profits shaped their successes and difficulties in the early post transfer phases.

3.5 After the vote, making a new start

Patrice Fabien, a distinguished Glasgow lawyer who had worked with Scottish Homes and subsequently, in the private sector, advised many stock transfer associations. He noted, in general terms, despite lengthy periods of forming and balloting stock transfer proposals, 'that existing HAs were never particularly well prepared for change and transfer opportunities when they arose'. Winning the ballot was one set of challenges, getting started to work on the transferred stock was another, often different, set of challenges. The efforts put into securing the former sometimes compromised subsequent early success.

In Chapter 2 it was emphasised that the transfer brought to an association not just a physical stock of housing capital, but also a set of rent, repair and management obligations and a debt to repay. Transfer also usually included land, social, political and human capital. It also stressed the evolutionary nature of organisational and housing system changes and the importance of paths of change. Behaviours and outcomes in the transfer process impacted early actions after

transfers. Across the UK, associations of quite different vintages identified a common set of issues that transfer brought to them.

Peter Walls, former Chief Executive of Gentoo, while recognising that not all associations were ready for the transfers they received, also stressed the significance of the management shifts that occurred with transfer. He believed that transfer involved two revolutions in thinking about housing management that UK local authorities had not achieved. The first was a revolution in attitudes to tenants as customers and the second a revolution in the combined products of services and dwellings offered. That is, he believed, that stock transfer was not about tenure shift per se, or moving against non-market provision, but about changing both cultural attitudes, on the part of management and tenants within the sector, and the resource flows required for the sector. His emphasis, largely borne out by wider evidence on dwelling qualities and standards, management performance estimates and the sharply increased flow of private funds into the sector, is that stock transfers significantly raised the capacity of the housing sector. But what organisational capacities underpinned that uplift?

3.5.1 Past experience

When existing associations received stock through transfers, notwithstanding Fabien's observation, they were often in quite different positions to deal with the first day and the early years of new ownership. Three reasons appear to impact differential capacities to absorb additional stock. First, where a transfer ballot was politically uncontentious, much staff effort, both from the seller and the buyer could go into creating an effective 'shadow' organisation in advance of transfer. Alistair MacGregor in Argyll, Peter Walls in Gateshead and all the former Scottish Homes staff emphasised this influence on a good early start. As there are no ballots in Australian transfers this should, in principle, raise the capacity to make a sound start. Second, the previous approaches and experiences of transferred stock and staff varies from landlord to landlord. Some transfers were emerging from landlords in crises with poor stock, demotivated staff, suspended repairs services and no record of tenant engagement. Unless reflected in measured stock quality, such negative performance influences were not reflected in transfer prices and staff in the new landlord had first to rescue and then revitalise these services. This was even more problematic when transferred staff resented the transfer.

A third difference lay in the past experience of the receiving association. This report has focused on LSVTs, where a landlord seeks to dispose of all of their stock, often in the one transaction. Australian experience is somewhat different and more akin to the Scottish Homes experience of multiple transfers within a state involving different providers, locations, etc. This raises questions about both the optimal size of transfer 'chunks' that can be 'digested' by modest sized non-profits and the fact that associations may actually engage in a series of transfers over time. In the project interviews, it was apparent that many associations undertaking stock transfer had both absorbed, previously, smaller non-profits (and this issue of intra-sectorial transfers, or non-profit mergers, has largely been ignored in research to date) and/or already absorbed some private sector stock.

Glasgow West HA had, over 20 years, reached a size of just under 3,000 units having undertaken six prior transfers. Linda Reid, the Director, observed that the association had, through these learning processes, become more efficient in its overall performance and also more effective in absorbing additional stock. Multi-phased transfers appear to be able to create strong non-profit organisations because they align stock transfers to merger and evolution within existing sectors of relatively small associations. Obviously MBO transfers formed to receive stock have similar 'familiarity' advantages. This takes us back to the question of what kind of non-market housing sector Australian states want and whether they and their local non-profit sectors recognise the opportunity to restructure the existing non-profit sector to more effective scales and structures. These issues were explicitly linked in the Scottish Homes and

Glasgow transfers and are currently being discussed in Northern Ireland. Stock 'digestion' capacity is important.

3.5.2 Organisational capacities

Leaders

The early successes of transfer and growing associations owed much to the leadership and strategic visioning and networking capacities of the senior officers of the associations and of their Board leaders. Malcom Levi, formerly director of Home HA and now Vice Chair of Peabody HA, stressed the social-entrepreneurial leadership skills of major directors of housing associations in the north of England and how they built dynamic, larger organisations through a mix of stock transfers and new development, sometimes changing from small, local organisations dependent on public money to national organisations with access to bond markets and generating significant surpluses for reinvestment in social purpose (see further below). Places for People, Home and Gentoo are all now large social businesses capable of investing through cycles and having much activity free of government support. Leadership had much to do with these successes. Similar stories were told by Bob Miller, former Chief Executive of Communities Scotland, about the Scottish context and by Lord Best, former Director of the NHF, about London based organisations.

Of course these longer term performances evolved over time, and often involved changes in senior staffing and leadership from the early post-transfer period (see further below), but there is a real recognition that present major successes in association leadership often stand upon the shoulders of past giants. Leaders also came from Boards.

Board structure

The ballot process, allied to a growing enthusiasm for tenant involvement in housing provision, underpinned a significant role for tenants on the boards of stock transfer based non-profits. As noted above, the common structure of LSVTs in England evolving from government advice and Housing Corporation approvals comprised a board of 15 with one-third tenants, one-third local councillors and one-third independents. Where transfers were part of an organisation that operated nationally or regionally the local board, comprised as above, would also have limited representation on regional and national boards. Some associations, such as WESLO in Scotland, as they were formed out of Scottish Homes, had fewer councillors on the Board. In some areas of England, Durham for instance, there are quite complex local group structures and governance arrangements with variations reflecting local histories and politics of provision. Governance structures for non-profit recipients of stock transfers had to be approved by the Housing Corporation (and regional equivalents) and its successors. Professor Peter Williams, who had served both on the Boards of the Housing Corporation and Tai Cymru (its Welsh counterpart in the 1990s), noted that although the HC Regulatory Board looked at local stock transfer, boards proposed it would have been unlikely for them to object to the establishment of a new association to receive stock given the strength of pro-transfer policy. However, in principle they could have taken legal advice and rejected stock transfers with inadequate proposals for board memberships. In the Scottish Homes context, there was a similar 'favourable' view taken of new association formation though the regulatory group within the organisation often suggested essential alterations to strengthen initial proposals, and that process seems to have taken place in the Housing Corporation too.

Most associations being created as vehicles for stock transfer undertook significant training and coaching for Board Members. Interviewees commented on the adequacy of the different components on Board membership, and indeed there was a widely held view that, for longer term purposes, the boards were quite conservative in approach, too local in origin, and too fixed on short-term outcomes. The independents appointed were often 'worthy locals' with risk averse

perspectives from backgrounds in routine financial and property sectors (bank managers and surveyors) rather than more creative occupations. There is a widespread view that initial groups of independents did not provide the creative, flexible response mechanism needed for longer term success. Independents were respectable and cautious rather than business process 'savvy'. It may well have been that after the dramas and traumas of stock transfer ballots that a period of stability served some associations well. That is, we would not expect all associations mature to diversification at the same pace as they travel different paths of change.

Tenants on Boards, Alan Murie argued, had a perspective that was largely limited to their own homes, streets and experiences rather than being attuned to wider, longer term strategic challenges. In many respects it seemed inappropriate to ask tenants to be responsible for the risks associated with quite major financial risks that they often did not understand. At the same time, he recognised that tenant board members had played key roles in settling down the local context for management in early post-transfer years. Tenant board leaders in Glasgow played a similar role in the Glasgow transfer and were often significant community leaders. However, they were represented as the largest single 'constituency' on the GHA board and it was constitutionally mandated that the GHA chair had to be a tenant. Some councillors, in some places, took on their new role as enabler rather than stock owners with energy and aptitude and remained involved with associations over the longer term. Others played little positive role. Changing governance arrangements became, as discussed in the next section, a rapid evolutionary challenge for associations

Staff and human capital

Leadership and networking capabilities are aspects of the staff capability of senior managers, but in much wider and more diverse ways staff capabilities were fundamental to how associations progressed after transfer. The capabilities of staff transferred with homes were crucial.

Landlords disposing of stock differed in the quality of staff that they transferred with the homes. While transfers involved significant expenditures in establishing housing stock quality and defects, with the costed outcomes directly influencing the transfer price, the singular concentration on valuing disrepair excluded many other transferred 'capitals'. There was no valuation of the development prospect that the transferred land and homes offered. Nor was there a systematic audit and valuation of the human capital involved. Transfer prices were adjusted for poor drains but not poor, or unwilling brains. In consequence, as soon as stock was transferred most associations faced significant issues in dealing with staff transferred with stock under TUPE legislation.

Staff cultures and expectations differed sharply, according to association managers interviewed. Council staff had been used to working in a context where problems were reported upwards into the political system, so that people saw themselves as primarily working for the 'council' rather than the customers or the community. They were used to working in tightly defined silos and to having to say 'no' to requests for repairs and moves and repairs services were largely complaint-led. Association directors argued, exemplified by Peter Walls 'revolution' noted above, that their challenge was to shift the work ethic to customers and communities rather than complaints (see also, Pawson and Mullins (2010, Chapter 6)). Clearly cultural realignment with the less hierarchical, less siloed approach in the association sector was crucial. Extensive staff retraining usually ensued.

Often there was the further difficulty that a proportion of staff had resisted transfer. All staff were naturally concerned about wages and employment, but TUPE and HA wage scales largely calmed these fears. However, transfer did not remove the difficulty of some staff preferring to be a 'council' rather than a non-profit employee. In the Australian context there may be much to be gained for clearer assessments of the capacities and anxieties of transferring staff and how they

will be met by human capital policies. Over time those who dislike their jobs, it was reported, tend to leave, often within a year or two of transfer (though this is slower in areas of high unemployment) so that within a few years, and at most a decade, the staff tensions of transfer are 'forgotten'.

Association directors across the UK emphasised that stock transfers required serious skills audits for transferring staff, and the sooner the better. Although experts interviewed had the belief that association staff were generally better, and better trained, than council staff, there were still significant skills gaps within associations, especially in relation to finance, IT (that had previously been quite effectively dealt with in quite large-scale municipal systems), and human resources planning. There was a view that, distracted by ballot issues, senior staff paid too little attention to the identification of likely skills shortages that could have been better anticipated in the change. These skills shortages were met in different ways over different time periods:

- In the immediate timeframe, capable consultants filled the too obvious gaps in financial skills, IT, strategy formation and large team management. Consultants did not just fill a gap but, according to a number of the association directors interviewed, were essential in building credibility for associations with government agencies, local politicians and the financial sector. They provided new capabilities that organisations did not themselves possess and played key roles in building success.

- In the medium term, building staff teams in these areas often took two to three years for in-house staffing to replace external consultants. Staff training budgets grew significantly. A range of the experts interviewed, including Professor Peter Williams, Professor Christine Whitehead (London School of Economics) and Donald Urquhart (formerly Regional Director Scottish Homes) were critical of training and education efforts for the sector and that the sector had made insufficient efforts to raise management capacities as it grew and matured. Donald Urquhart remarked that the sector trains people but does not develop them.

Interviewees also noted that it was not uncommon for some three to five years into a transfer for the Chief Executive who had led the transfer to move, or more commonly be moved on. Sometimes this reflected rapid change in required skill sets, and sometimes it simply reflected Boards wanted to make a further break with their past. What we can conclude is that over a two to five year period within associations there were significant shifts in the demands for human capital and changes in roles and structures. The organisations that most effectively moved on from their creation were widely believed to be those that had a cogent human capital strategy for the organisation from the outset.

3.5.3 Political networking capacities

Within the political hierarchy

A number of Directors who had been through the stock transfer process stressed the importance of attracting both local and national political support and then keeping it. Of course national bodies such as NHF needed to continue to hold a positive focus of government on stock transfer policies and this was long successful. The current inactive state of housing transfer policies in England, their near oblivion in Scotland and slow progress in Northern Ireland would suggest that national non-profit representatives have failed to make progress in this regard in recent years. More locally stock transfer associations continue to nurture their political and partner networks to seek to manage better and expand their ventures.

Alistair MacGregor, Bill Fullen and Malcolm Levi all remarked that it was important after stock had been transferred away from councils that the council did not then seek to punish or be resentful to the organisation that 'had taken their stock away'. This negative attitude clearly prevailed in some Scottish councils, for a period of time, and the GHA endured a difficult five years as old scores appeared to be settled before changes in personnel and new challenges

allowed the gradual development of a more positive working relationship. As associations moved into wider roles, either dealing with area regeneration, economic development or housing and care for seniors, the ability to network across sectors with other partners became increasingly important but these areas often involved local government and national agencies that re-emphasised local and wider connections.

In Northern Ireland, Executive Staff had the view that associations were disconnected from the local political system and did not network effectively to promote their cases for transfers and resources. Association directors there remarked on the lack of support for them from NIHE is seeking association-led change.

Engaging tenants and communities

We have already noted how stock transfer shaped potentially better housing management by being allied to a new 'customer service' ethos and tenant board membership. We have also noted the prevailing view of senior staff in stock transfer associations that the engagement skills they had used and the tenant education/information/consultation/ processes in transfer ballots had been critical to a good start to the new landlord. First, they had given tenants a voice about their priorities, which had often not been heard in council ownership, and had amended plans and priorities in consequence. Second, they felt that engagement gave the new organisation credibility in the community.

Peter Walls, in reflecting, on the largest municipal stock transfer in England, suggested that engaged tenants were the most reliable partners for early change. They recognised the importance of having choice, and they appreciated the consultation process having previously been little engaged by their council landlord. The new association in consequence, and in contrast to the old council Housing Department, was equipped to lead change with an informed sense of tenant preferences and priorities. Rethinking priorities, in line with tenant preferences, gave credibility to the new landlord as did an early repricing of stock (to better align rents and quality of homes). Peter argued that the formation of Gentoo allowed good management practice and a longer term view rather than short-term politics to shape decision-taking. Stock transfer was about creating more management capacities and about replacing political power in decisions with more diverse governance and that led to rising levels of tenant satisfaction with their services and landlords, a measure of management success. From what was said above as well as the evidence from those who run UK stock transfer associations, the ability of landlords to engage with tenants is a key capacity for service transformation and it should be at the forefront of state provider proposals for transformation. Housing associations had a capacity to do housing services with their tenants rather than simply to them, and the same applied to renewal of their homes.

3.5.4 Resource capacity

Christine Whitehead emphasised how much associations, newly formed to accept transfers, had to learn about finance. They faced a difficult model relying entirely on debt finance, often had little experience of dealing with the private finance institutions and trusted them too readily. Organisations that hired and learned from capable private sector consultants were the ones that made fewest mistakes and progressed most effectively.

Staff transferring from public to non-profit sectors had little experience of designing projects involving private finance, nor in accessing such funds. Nor indeed did housing associations have much such experience prior to 1990. By the time of the major flows of stock transfers there were already experienced private finance officers in associations and expertise in government agencies. Stock transfer associations did face major challenges in valuing stock, usually resolved by consultants, but few faced complex financing challenges once transfer prices were established. The vast majority accessed finance from banks rather than from the capital market or equity funds and were able to benefit from much government and agency work to engage the

banks in the UK social housing sector. For the sector as a whole, and this includes all association projects and all sources of finance, there is now close to £90 billion of private finance obligations attributable to association borrowing.

The main financial challenge facing associations at an early stage was not raising complex loans, but rather the steady and efficient management of cash flows. As rents were usually fixed formulaically in the transfer offer, usually with rises at Retail Price Index (RPI) plus 1 per cent (although rent restructuring also occurred), the key capacity was cash flow management and wider management effectiveness. However, within a few years of transfer, most associations began to recognise that surpluses could be significant with large cash flows and that asset development opportunities arose.

In short, the restrictive government notion of associations as managers of a fixed stock at a given standard over a future 30 years began to change as associations matured. Interviewees had encountered limited instances of where cash flows did not meet expectations and associations that encountered difficulties were quickly absorbed by a larger association. There have been no bankruptcies of stock transfer associations in the UK.

However, interviews with two of the most recent three transfers at Gloucester and Durham, in England, indicate that they are facing major challenges of establishing their businesses in a particularly hostile policy context, as changes in social security are adversely impacting on tenants, enforced RTB, rent reductions of 1 per cent per annum for four years and reductions in partnership supports from cash-strapped councils are pushing them within two years of formation, to cut services. They now see 'government policy change' as their main risk and are unlikely to survive as independent associations. All these emphasise the importance of informed continuity and coherence in government policies. In the Australian context neither continuity nor coherence appear to be a feature of recent policies for public housing, housing associations and transfer policies.

Most associations coming into being through transfers, however difficult the transfer process might have been, appear to have established and consolidated effectively. Throughout the last 30 years, it has usually been the case that the most recently formed associations are the most vulnerable to external shocks, and most have survived then thrived. However, there must remain a concern for the future of very recent transfers in England that appear to be not just unsupported but adversely impacted by policy changes. Keys to success involved staff leadership, evolving board capabilities, reshaping staff skills and cultures, effective tenant engagement, being prepared to face long periods of high debt in which cash flows had to be well managed and, finally, accessing low cost debt finance. As they consolidated, the context in which they operated altered and as they survived and progressed they created within their own organisations new capacities and opportunities. At that juncture the intelligence, creativity, flexibility and energy of the organisations, that is their capacity for recognising the opportunities and need for change, became critical in shaping transformative changes in many organisations.

Stock transfer associations have not evolved linearly and stuck to grinding out their 30-year management and maintenance tasks, but many have sought new, diversified roles, that challenged the structures and processes that they used to emerge and consolidate. In Australia, any estimation of the benefits of stock transfer has to look at impacts on the recipient and system in the years ahead as well as the immediate benefits to the disposer: Do Australian states look at these issues as a property owner and speculator rather than as a government concerned with creating an effective or fair housing system? These are not, often, the same thing. In the next chapter we examine dynamic successes and problems of stock transfer organisations.

4   Second thoughts, then second winds

In this chapter we reviewed the key capacities and changes required for stock transfer organisations to progress from formation to maturity.

- We have reflected on wider key questions such as whether strategies for stock transfer that stress the importance of suitably scaled non-profits also require an efficient set of supporting actors and institutions.

- We questioned the incomplete regulation framework which pushes HAs towards an unfamiliar arena, but fails to set a safe boundary towards the riskier investments.

- The emergence of group structures and the mixed economy further calls into question whether there needs to be a coherent set of larger non-profits fashioned by prior mergers of small entities.

All in all, our framework moves beyond the capacities of organisations to evolve successfully, but also considers the capabilities that governments have to manage and regulate non-public providers within local housing systems.

4.1   Adapting, then advancing

Organisations that received stock in successful transfer ballots, typically, had short periods of enjoying their successes. Soon, however, the issues highlighted in Chapter 3 of moving from ballot to fully financed transfer, forming boards and engaging with tenants quickly involved staff in significant challenges that tested their individual and organisational capacities. We have already discussed the key issues arising in different contexts and the capacities that associations needed to cope with them. Of course the range and severity of challenges were usually greater where transfers were larger, where associations were newly formed or had not previously been involved in transfers, and where transfers had been hostile rather than amicable in tone.

Even as associations set about their defined goals, in essence the management of transferred stock, they did so in a changing context. Housing systems changed. Policy emphases (even if long supportive), locally and nationally altered, not just in housing but in social security, interest rates and fiscal policies that all affected associations. Associations had to deal with the dynamic of the wider economies within which they were set. But two other dimensions of dynamics mattered. First, their own assets, whether defined as staff or board capacities or stock and neighbourhoods owned, shifted in quality and value. Second, the organisations faced quite different patterns of contestability and opportunity from councils in significant ways. As organisations they faced pressures that were, in part, discovery processes so that the organisations and their assets changed simply as a result of adjusting to their new context. These arguments sound theoretical, but they are important in organisational and system transformations.

Some of the key differences from councils argued by housing associations leaders included:

- Housing associations are often smaller than councils, they are unionised in different ways from councils, and they have non-political Boards and, in consequence, they are inherently more flexible in the face of system change (Iain Maclean, Director, Fold HA, Belfast).

- Housing associations are more likely to outsource some inputs than councils, they use markets more often (and internal hierarchies less often) than councils in similar functions; Ashley Green, Gloucester Homes, argued that stock transfer had opened up more competitive processes in using inputs and induced improved capacities in their own staff resources.

- When associations operate as a diverse set of providers within a metropolitan area they will both challenge monopolies and provide a dispersed innovation potential (Alistair MacGregor, Argyll Community Housing Association: Mike Bruce, WESLO).

- Housing associations are not confined to silos of single tasks (management of non-market housing) but can adopt wider affordable housing roles, develop non-housing subsidiaries and engage in partnerships delivering complex area and social outcomes (this case, in different ways was argued by almost all of the interviewees); they have flexibilities of organisational scope.

- Housing associations have geographies of service provision and development that are not confined by local authority boundaries; they have capacities for spatial flexibilities in operation and investment: Bill Fullen, Director of Durham County Homes, noted that after significant cross-area rationalisation of pre-transfer governance structures within the County, they were also now looking at the prospect of further transfers and integration across adjacent local authorities, with some interesting integrative prospects. Potentially NFPs can provide more flexible geographies that offer scope and scale that may be more suited to both local costs and preferences; they may localise the housing system more effectively than councils.

We do not 'evidence' these claims, but simply report them as expert explanations of why 'success' has often arisen from stock transfers. Councils can respond with arguments based upon scale economies, effective integration of different services and the use of a competitive tendering process in some circumstances. However, we also heard from sector participants who supported our argument in Chapter 2 that the narrow conception and pricing of most stock transfers had simply undervalued the assets being transferred, in many instances, and failed to think about the new system flexibilities and innovation capacities of the organisations created.

Interviewees expressed their sentiments to the last point raised above in different ways. Peter Williams argued similarly, if a little more severely, that associations had succeeded readily because policy had failed, both in underestimating what associations could do and then, once formed, having a regulatory framework that pretty much ignored stock transfer associations (unless they became particularly problematic).

Peter Walls, from the association perspective, had emphasised that the key challenge for Directors and Boards was to build an organisation out of the transfer vehicle that would do more than initially promised. He also noted that as stock transfer was about creating more strategic management capacities in housing, and replacing political power in decisions with more diverse governance, then it was hardly surprising that stock transfer associations (often born out of political compromise) would quickly change. He stressed that politics and policies as well as local circumstances impacting associations can change quickly. Associations, outside the local government framework, can adapt to these shifts more effectively. Areas change, tenants grow older, staff mature, and so do assets and organisations. All change. The original conception of stock transfers associations was much too linear in relation to roles and organisations.

Academic commentators and housing association directors broadly agreed on the importance of the inherent dynamics of the system, which were not recognised in policy-making. Consultants agreed too and Robert Grundy confirmed this by noting that associations very quickly identified, with consultant support, the difference between what associations had to contractually do and what the real estate management involved and their capacities could actually achieve. In

identifying and exploring these differences it was often possible to see huge amounts of 'latent' capital and ways to improve net cash flows. That discovery incentive was much stronger in the association sector than it has been in most councils and, in consequence, stock transfer allows more effective use and valuation of 'non-market' real estate.

Two further points on changing and maturing after formation should be noted. First, some associations recognised these opportunities for change almost immediately; others, beset by major transfer related issues in the initial years, could take longer. As an extreme example, one recently appointed Scottish Director highlighted that they had taken over an organisation (recently subjected to regulatory sanction) that had been static for almost 20 years, which barely met its quality standards let alone flourished.

The experts interviewed had a broad view that within a maximum of five years most associations had accomplished their initial objectives and were seeking to move onto wider, larger goals. Sometimes the recognition of the need for a more dynamic approach followed a 'dip' in organisational morale as managing the transferred stock became 'routine', usually three to five years after transfer. The second observation is that the formation-maturation period may have changed over time and that youth-maturity transitions took place in quite different policy environments. Gloucester Homes, for example, was formed in 2015 in a much more problematic environment than Gentoo did 15 years ago.

4.2 Maturing capacities

The interviews stressed again the importance of leadership and political networking capacities as the organisations evolved. Where association leaders had come from a post within the local authority, there were some signs that post-'settling down', boards often sought different emphases in leadership skills, and there was a significant turnover in senior staff as boards reoriented and reskilled. Political networking with the council was critical as the association had to rely on council support in partnership, planning and development decisions. In some instances, embittered by the transfer process, the relationship with the council broke down to the point that there is no collaboration at all. In these circumstances, changes of association leadership have been part of a 'new start' with the council in its enabling/disabling roles. Successful political networking and the ability of leaders to align their strategies with council aims were widely identified as preconditions to the longer term success of associations.

The discretionary choices of associations, whether recognised and driven by Boards or executives, that arose from their capacities surplus to those needed to deliver stock transfer agreements were used to diversify the activities. Boards often quickly sanctioned activities to enhance tenant wellbeing, with associations like Optima in Birmingham and ACHA in Argyllshire, for instance, having a 'community chest' to support tenant and community interests, and Optima also had an acute socio-economic needs fund.

Some associations were asked to participate in further large and small transfers, and others to develop affordable rental homes, often outside the original association territory. Alan Murie, Mike Bruce and Jenny McIntyre (Northern Ireland Federation of Housing Associations) all highlighted that tenants liked stock transfers because they retained surpluses locally, so they had misgivings about wider spatial action that used reserves and assets in other localities. That attitude changed only when association Boards changed (see below). More commonly, 'wider actions' involved the local housing system. For instance, associations formed subsidiaries to undertake for-profit strata management (factoring) for private owners who shared their streets and, sometimes via RTB, buildings. This interest in broadening non-profits' roles in the local housing system also led, from 2010 onwards, to significant investments in lightly subsidised 'middle market' rental housing, using the financial skills and management reputation of the association to help reduce rental market pressures. These association investments are, via

subsidiaries, 'for profit' in nature and surpluses help support social housing provision. The larger scale of operation may also help reduce overhead costs per housing unit in both sectors. While housing associations have also played into home ownership initiatives for 30 years, in recent years they have come to play key roles in providing shared ownership options for potential entrants to home ownership.

Once stock transfer associations could convince the regulators and their lenders (see below) that they were in a sound position to take on these tasks, the core business of managing the transferred stock was much less dominant in the associations activities and new skills in development and financing and market sales were required.

Associations were widely encouraged by government, after 1999, to participate in the wider action and housing plus agendas to promote neighbourhood change. Substantial programatic activities and objectives were also embraced. In the large metropolitan areas in particular, but by no means exclusively, stock transfer associations became significant participants in neighbourhood management, establishing local credit unions, and supporting training and employment initiatives and related activities.

- Gentoo in Sunderland and GHA in Glasgow (now under the wider rubric of the Wheatley Group) are good illustrations of not only how their core housing improvement and services programs had made key differences to city quality, but also how their housing-neighbourhood perspective has contributed positively to other areas of renewal policy. After Gentoo was formed, its board, which had always been interested in employment issues (in a high unemployment locality), quickly adopted the aim to be a housing-led development agency. This immediately redefined their scope, geographies of and staff capacities required. Staff said that employment retention rather than a search for rising asset values drove the association expansion. In 'austerity' Britain, in 2015, Gentoo finally had to reduce employment.

- Nearby Durham Community Housing Group also sees financial inclusion and tenant employability as a core association service and it is exploring and emphasising the tenant health agenda. They argue that they are evolving from dealing with a 'social economy' of social housing estates to more diverse and 'mixed economy' estates. They were clear that 'for-profit' services had a role to play in renewal and sustaining their business plan.

All of the associations we interviewed in Glasgow, Argyll, West Lothian, Fife, Falkirk, Newcastle, Durham, Sunderland, Gloucester, Birmingham, London, Manchester and Belfast. They all had positive stories to tell of how they had diversified from their stock transfer base to undertake wider action, for profit service provision, and more mixed developments. Robert Grundy from the property company, Savills, noted the purity and simplicity of the original stock transfer model with its well-defined targets, revenues, costs and cash flows. He also noted that business diversification away from an exclusive focus on social housing added to costs and created new risks for associations as well as new returns. This inevitably made the demands of forming association strategies, meeting regulatory requirements, raising finance and governing the association a more complex task, if costs and risks were not to rise ahead of surpluses and other benefits. How did associations, after stock transfer, raise their capacities to do this?

Before addressing this complex question, by looking at evidence on how key capacities evolved, it is important to consider whether such evolutionary trajectories are still, now, open to more recently emerging stock transfer associations. Ashley Green in Gloucester was quite pessimistic about such possibilities. He believes that, from the Gloucester transfer, the government simply wanted a 'core service' and no wider benefits or developments. They have to narrow rather than diversify their core agenda. For instance, partnership initiatives to reduce youth crime can no longer be funded by the council as their resources are cut. Housing entities can no longer rely on council partners engaged in wider actions and housing associations can't

do the joining-up and housing plus anymore. If this turns out to be accurate then with reduced community roles, un-joined services and less customer contact, it appears that the UK are reversing the lessons of their own research and experience from the last three decades.

Alan Murie noted of Optima HA, and it applied to the other organisations we interviewed too, that as the organisation matured and evolved and original tenant aims were met and satisfied then boards and staff and tenants lose 'organisational memory' of their original intentions. This makes some new options (forgetting can be a positive capacity!). Growth and mergers, as in the case of Optima with West Mercia, can dissipate the original tenant energy for change. Alan felt there was a real tension where transfers succeeded; if they diversify and merge and grow they may lose tenant engagement, but if they had stayed within their own territory and localised their skills and assets, then they would have failed to benefit other needy areas in Birmingham. We return to business diversification and its consequences below after examining key capacities associated with maturing associations.

4.3   Maturing sector

We undertook a wide review of previous studies that documented the emergence and development of the HA sector, and stock transfers in particular, in the UK, as well as reflecting on our own interview study. This process led to identifying four key dimensions that had been evolving along time, which then helped to define our view on the evolutionary model for the HAs in the UK over the past three decades, as illustrated in Table 2 below. Of course the details of this pathway vary in the devolved regions and even in different metropolitan areas, but as an initial practice, we believe these dimensions capture some of the key features along the life cycle of this sector.

Table 2: The evolutionary stages of transfer to HAs in the UK

Phase	Timing	Dimensions in the evolution path			
		Finance	**Culture**	**Governance**	**Industrial structure**
Birth and infancy	2–5 years after transfer	Rising debt; finance re-negotiation	'Role culture' and increasing frustration with it	Pre-set governance structure according to the transfer proposal, strong connections with the LAs	Small, locally based HAs
Consolidation	10 years	Reaching and passing 'debt peak', steady income flow	Transforming towards 'task culture', major staff and board members changes; establish its unique code of practice	Shifting the balance between tenants, councillors and independents. Conflicts still noticeable among the board and with the chief executives	Emergence of alliances and grounds. Associations start exploring non-core businesses
Mature	20–30 years	Private finance leverage with the asset value to support develop activities; partnership with the private funders and other entities	Investing in staff training, emphasis communication,	Adopting flatter, flexible, and coordinated governance structure, improve motivation and rewarding mechanism	Group structure becomes the norm, more mergers; hybrid activates funding and structures
(Potential) Crisis and decline	40 years (prediction)	Over-risky portfolio, further decline public funding	Over business-like and staff exhausted from intensive performance evaluation and the heavy pressure for innovation	Diminishing local accountability, superficial or excessive tenant engagement	Monopoly, social responsibility become secondary to profit generation
(Potential) Restructure	50 years (prediction)	Use equity market; rent restructure; specialised investment portfolio	Reduce the competition pressure, encourage social capital building	Redefine relation with LAs and national regulation framework, balancing the powers from different sources	Clear target and close monitoring of rent level, new AH construction and public services

Source: The authors.

4.3.1 Finance

Successful transfer requires a robust business plan for managing transferred housing assets which projects income and expenditure balance over a specified period (normally 30 years). It is generally expected in this business plan that debt will increase during the association's first few years, as they need upfront funds to cover the purchase costs as well as all the initial major repairs, upgrading and even replacement, in order to realise the promises made to the tenants in their usual five-year evaluation period. Peak debt dates lie five to 20 years after the transfer. As time goes by, accumulated and rising rental incomes could help these associations pass the 'debt peak period' and start to generate revenue surpluses. Of course, as Pawson and Mullins (2010: 68) pointed out, this scenario depends crucially on the key assumptions applied in the HAs' business plans. Some factors are easily predicted, such as the rent level and occupation rate. Whereas others, such as the economic conditions, which could affect the cost of construction and repair, and the political environment, which influences public funding availability, are out of the control of HAs. Associations had to learn how to recognise and mitigate such risks.

Bill Fullen, Director of Durham County Housing Group, established in 2015, was already clear that broader roles had to emerge. He saw his main challenges, and where he required more organisational capacity arising from the complex nature of asset management. He felt he needed new organisational eyes and ears to identify emerging opportunities.

Financial skills also play a major part in the organisations' capital wellbeing. In this regard, infant HAs tended to lack such skills due to the staff composition as explained earlier. In settling down, as noted in Chapter 3, they generally gained such capacity very quickly either by up-skilling their own staff and/or recruiting financial experts, because they had to. When associations began to develop market-oriented businesses, they were faced with new risks and revenue streams and had to learn how to fund and manage them. They also, after the GFC, faced issues with lenders questioning whether new ventures might raise overall risks and compromise the repayment of loans for stock transfer improvements (core business). Lenders, who had made many stock transfer loans in more favourable times, often sought to renegotiate overall loans when new ventures were proposed, so this discouraged bank borrowing. In turn, this induced a step change in the financial sector connections and the access of larger stock transfer associations.

Wheatley Group (which had grown as a penumbra around the GHA) accessed capital markets directly, raising a bond at fine rates for close to £250m. Places for People, which had absorbed smaller stock transfers across the country, had led the way in such access to capital markets and it is a diverse, innovative and efficient funder. Its headquarters are now at the heart of the city of London and in essence it now has a social housing business (comprising multiple associations) set in a group structure also containing private housing, leisure centres and elderly care facilities. David Cowans, its CEO, noted that Places for People has grown way beyond the instabilities of government policies and has a capacity for mobilising assets and self-raised subsidies that would have been unimaginable to most participants in the UK in, say, 2000.

Vision-led expansion and diversification has created complex new, hybrid entities, out of not-for-profit housing businesses and they have developed roles well beyond their initial scope (as defined by regulators and policy-makers).

4.3.2 Staffing and organisation

The second key dimension of maturing has been the evolution of new organisational cultures, and this is discussed fully in Pawson and Fancy (2003: 4) and Pawson and Mullins (2010: 6). Handy (1993: 181) defines organisation culture as 'deep set beliefs about the way work should be organised, the way authority should be exercised, people rewarded, people controlled'. For

him, there are four prototypes of culture, including the *power culture*, which resembles the authoritarian regime as decisions are made top-down even without solid rationale; the *role culture*, which is most common among hierarchical organisations and is a synonym of 'bureaucracy'; the *task culture*, which is like the coordination phase identified in the organisation life cycle theory, in which work is organised largely around tasks and programs; and the last is the *person culture*, in which the value and importance of people is placed above a defined and concrete objective.

Most stock transfer HAs in their infancy appear to have been following the role culture as a legacy from their paternalistic local council. Nonetheless, once they bedded-in, re-oriented staff and gained experience, the desire to replace such 'command and control' culture with task-oriented culture is noticeable, as found in and Clarke and Newman (1997). Moreover, a greater desire for culture change was noticed among the second generation HAs. Pawson (2006: 775), for example, found that the latter tended to have a strong culture of asset management and clearly defined and committed goals among their staff. They also tend to value their employees more by investing in staff development and training than their local authority predecessors (Pawson and Fancy 2003). Five common approaches adopted by HAs to realise such culture change were documented in Pawson and Mullins (2010: 175). These include:

1   securing greater staff 'buying-in' of the new organisational code of practice

2   developing a more responsible and motivated workforce by changing the reward system and workload arrangement

3   promoting business-minded ways of thinking

4   adopting a 'customer-centred' approach

5   a greater emphasis placed on the value of human capital and the development of flatter organisational structures.

Our interviews reinforced these earlier observations by Pawson and Mullins (2010), as discussed in Chapter 3 but the same cultural shifts also enabled the new, broader roles to emerge.

4.3.3 Governance

The third dimension is governance. Hartley and Rashman (2002) profiled the growing recognition of the need for governance change among HAs in the first two to three years of their existence and interviews for this study suggest their observation applied equally to stock transfer organisations. For them, the first phase of the initial 6–18 months after transfer was characterised by recuperation, psychological repair, and a focus on performance, but with little outward sign of change. Then, between 6–24 months, transfer HAs started to review their organisational structure and design, but the institutional inertia might still be too powerful to overcome. In phase three (two to three years post-transfer), there was often growing recognition and pressure that the organisation required substantial transformation. This is normally the period when organisations reach their 'debt peak' and the potential governance and financial crisis mutually reinforce each other, and push the HAs out of their comfort zones. Another important element in the governance domain is the board structure, which has been shaped to a great extent by the constitutional framework in the first two decades after the transfer. As noted above, the 'third-third-third' governance model was widely adopted. The Local Housing Company format gradually became the standard model for the second generation HAs.

Within a few years, new pressures called for shifts in the size and composition of Boards. Peter Williams felt that many boards felt too much like the old council owners and in many instances it took a long time to make the essential changes. Robert Grundy noted that as associations became serious businesses, the imperative was to have board capacities that met requirements

of the organisation rather than some past political compromise. Councillors often did not have the long-term visions, and were too beset by narrow, short-term electoral issues to take key long-term decisions. Groups had mixed experiences, some finding councillors as strong networkers and enablers and others reported little benefit from council involvement. In relation to tenant involvement in boards, Alan Murie noted that the demands for resident involvement, by tenants themselves, falls after two or three years and the organisation becomes trusted. Tenants did not think about strategy in the ways that regulators and officers did: they have, often implicit, principles that shape their strategy by voice on day-to-day issues yet not wider, longer term matters. However, maturity took associations into precisely the latter territory.

- In Gloucester, in the very difficult times of 2015–16, there was a very rapid recognition that the initial board structure of 'thirds' was not matching the problems faced. The director believed that tenants should not be asked to manage major financial risks. Indeed, neither tenants nor councillors have the capacities to deal with the financial issues raised by the policy changes Gloucester Homes faces and they have already set out to revise their board to have more strategic, legal and financial skills.

- The majority of associations we interviewed had changed their boards within five years of setting up. Scale had often slightly fallen, councillor representation had been reduced and the tenant presence had reduced even more (though this was less true in small, partial stock transfers). Associations had recognised they needed to evolve their boards and they have.

4.3.4 New structures and networks

Perhaps the most noticeable changes along this dimension is the growing inter-organisational consolidation which has produced some national super large provider groups that span across several regions, and the agglomeration of previously fragmented bodies, including stock transfer components into some political forces that cannot be ignored. Changing government regulations have accelerated this process. In 1993, for example, a ceiling on the size of post-transfer landlords was set at no more than 5,000 dwellings in England and Wales. The rationale for this was to 'avoid the risk that future transfers will perpetuate a local monopoly by creating a single new predominant landlord in an area' (DoE 1992: 7). In 1996, however, the threshold was raised to 12,000 and then was totally abolished in 2004. The immediate effect of this change was that some LAs with a preference for city-wide unity became willing to transfer their housing stock. In the longer term, such change removed 'any bar to the regulator in consenting to group structure or merger proposals agglomerating transfer landlords within larger groups or entities' (Pawson and Mullins 2010: 157). According to Pawson, Davidson et al. (2009)'s survey among the 154 transfer HAs set up between 1988 and 2007, nearly half (70) had come together with other organisations or merged with others. Moreover, it was found that the second generation, stock transfer HAs, were particularly active in this sector-wide restructuring process (Pawson and Sosenko 2008). Achieving scale economy and diversification were among the key drivers for such change.

Here the trend towards diversification, introduced above, deserves more discussion. Many studies have noticed the increasingly 'diverse' goals of HAs compared to their legal definition. Smith (2006: 280), for example, documented the 'softer' activities that the first large-scale transfer landlord in Wales pursued, such as developing community capacity, supporting the LAs' health and wellbeing strategy and achieving environmental improvements. It also set up a Community Support Fund to provide seed-corn monies to support wider economic and social activates such as organising youth activities. Therefore, it seems the adaptive capacity and leadership skills have been growing among the UK HAs. Nonetheless, our study also reveals that the hostile funding environment and pressuring performance standards are also causing some 'involuntary' restructuring. We will turn to these industry-wide changes in the last section.

For the latter, the numbers of HA alliances, lobby groups and other networks have grown rapidly. The members normally include HAs acting in proximate jurisdictions, consultants, think-tanks, and even tenant action groups. The Housing Associations' Legal Alliance (2014), for example, was established with the purpose of achieving significant cost savings and increased efficiencies in the sourcing of external legal services for its members. These networks not only function as platforms for HA managers to share practices and innovations, but also proactively participate in and shape the political debates for the benefits of their members. 'Homes for the North' for example, brought together 20 mutual and housing groups in the north of England. One of its missions was to 'raise public awareness of housing policy challenges. It will also attempt to inform regional and national policy-makers about how to create more and better homes and communities' (Sullivan 2016). All these new features evidenced the growing networking and political capacities of the HA sector in the UK. However, we find little attention has been paid to these virtual networks in the academic literature.

All in all, in undertaking this study we have become aware that mostly stock transfer is not the end of a story or process but a key, evolutionary trigger to allow new choices about finance, staffing, partnerships and roles that can offer prospects of growth to well-led non-profits. They also generate challenges and uncertainties for the path ahead. Our framework takes an evolutionary perspective on non-profit housing providers. It looks for the capacities involved, after transfer, in a 'settling-down', post-transfer period, a consolidation period of up to a decade, and then continuation as a mature provider often involving significant changes in roles, staffing, resources and governance. We further identified four particularly important dimensions in the evolutionary life cycle. The stories of the UK HA sector have demonstrated growing financial, organisation, networking and political capacities along the four dimensions. Although there have been economic and political challenges to this sector, so far it has dealt with them well. However, evolutionary models warn us of the prospect of extinction so we, for caution, have to sound out the potential scenario of sector decline.

4.4   The emergence of a hybrid system

In this last section on how organisations are maturing, we look at the association sector as a whole which has both reinforced its 'social enterprise' status and become increasingly hybrid, partly though stock transfers. As reviewed by Mullins, Czischke et al. (2012), there had been a growing amount of literature on social enterprise and on hybridity (see, e.g. Defourny 2010; Kerlin 2006; Teasdale 2010, 2011 for discussions on social enterprises) and Billis 2010; Evers 2005; Koppell 2001 for hybridity), that has not been specifically applied to the housing sector. Nonetheless, work promoted by the European Network of Housing Research (ENHR) working group on 'Social Housing: Institutions, Organisations and Governance', have drawn attention to this important issue for housing sector performance and governance.

The evolution of HAs from independent NFPs governed by voluntary boards and mainly engaging in social housing rental activities to their current status as hybrid social enterprises, involving complicated tripartite forces between the state, market and society, has been well documented (Malpass 2000; Morrison 2016; Mullins, Czischke et al. 2016; Mullins and Murie 2006; Mullins and Riseborough 2000).The seed of this transformation was planted in the 1988 Acts, in which a mixed or hybrid funding model was promoted leading to a greater commercial focus by HAs (Mullins and Riseborough 2000). Besides financial hybridity, significant repositioning of the sector can be noticed in their governance study, organisation culture, outsourcing activities and changing stakeholder relationships, all of which suggest that the association sector in the UK has becoming increasingly diversified.

Pawson and Mullins (2010), have discussed hybridity in English and Dutch HAs in relation to their financing model (mixed public and market funding); governance (multiple stakeholder configuration); structure (separation between charitable and commercial functions), and

activities (traditional social housing providers extend to neighbourhood support, community building, and even for-profit activities). Another dimension that could be added on is organisational cultures, where there has been a shift from voluntary, role based culture towards rational, business-minded and more entrepreneurial (Czischke, Gruis et al. 2010; Mullins and Riseborough 2000). Mulllins and Sacranie (2008) also reported a growing corporate code of practice, emphasising business efficiency, strategic planning and increased financial reporting, similar to large private sector companies. Furthermore, the governing boards have become more professional, reflecting the growing importance of 'governing independence and expertise' (McDermont 2010) by these entities. Associations now need the capacities to thrive in this much more complex world.

In Figure 4 below, we update our earlier network-of-actors model by taking into account these new features. It becomes very clear that the state, community and market all have their own functions and principles which in turn affect the HAs through their executors. It is not immediately clear to us which direction the HA sector might tilt towards in the future, but the intensified 'state-push and market-pull' might drag this industry towards the bottom right corner.

Figure 4: Divergent demands on social housing organisations
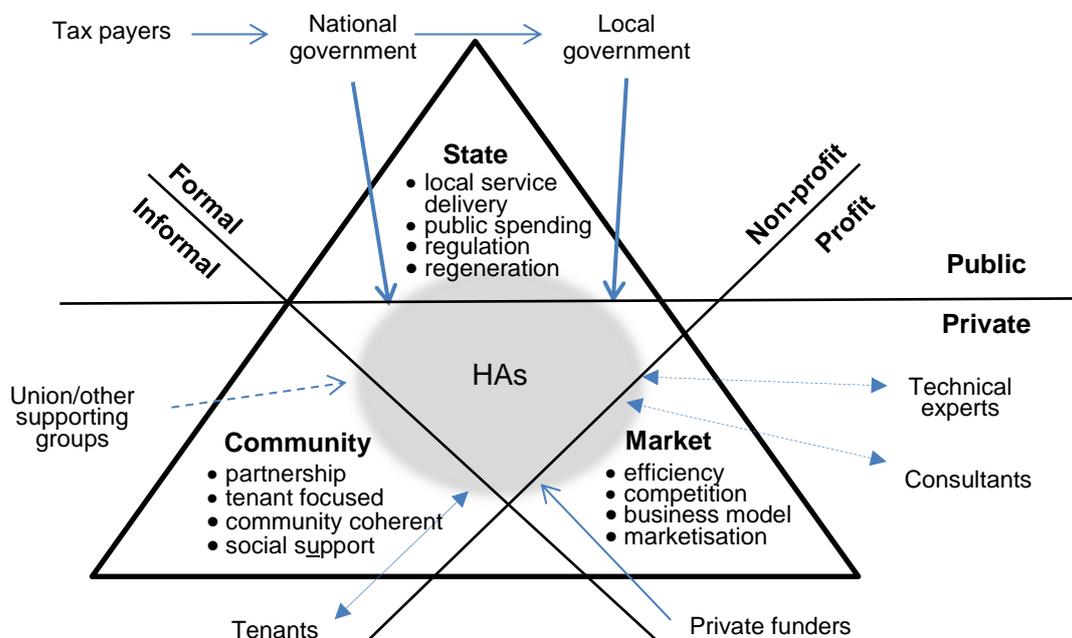
Source: Updating our own framework in Figure 4, based on insights from Sacranie (2008) and Czischke, Gruis et al. (2012).

One of the consequences of the growing hybridity in each individual organisation is the trend towards organisational agglomeration, which has resulted in a 50 per cent increase of associations' average size between 2001 and 2007 in England (Pawson and Sosenko 2008). Just below half of the HAs established in the late 1990s have entered some kind of organisational alliance structures by accepting 'group subsidiary' status. In this arrangement, HAs remain as legal entities but lose their independent decision-making power. Pawson and Mullins (2010: 158) identified three key reasons why this was happening. These include the weakness in the original business plan so that the newly established HAs are in need of 'rescue' by another, economically more robust organisation. Or it would be the case that the economic soundness of some HAs is seen by some as attractive to be integrated into. This applies more commonly when the Housing Corporation changed its funding regime as mentioned earlier. The

third reason is the need for business diversification. This could be instigated by those larger, economically strong HAs that want to acquire new activities or new territories. It could also happen in some smaller HAs, especially when they fulfil the first five-year promised tasks, when they try to take on a new landlord subsidy through a future stock transfer. Although at the time of their study full mergers had not happened, Pawson and Mullins (2010: 305) nevertheless predicted that 'given the recent sector-wide trend towards "group consolidation", it could seem highly likely that many such arrangements will morph into full mergers in coming years, potentially leading to full integration within larger, remotely-based, organisational structures'.

This is all so true now, and Mattinson (2016) even argued that 'in the current environment, housing associations must be open to discussing the possibility of a merger'. Those associations unable to demonstrate that they have considered mergers could find themselves on the back foot in a sector that is finding ways to innovate in the wake of rent cuts, and right to buy'. The National Housing Federation also published the merger code as a guide to this conduct.

The other, and related, consequence of individual hybridity is the emergence of a mixed sectoral economy, which describes an increasingly blurred boundary between for-profit and not-for-profit actors. Critics of such phenomenon tend to regard it as a staged process towards privatisation (Ginsburg 2005), though his observations are debatable. Mullins and Walker (2009) explored the implication of this mixed economy on the behaviours of both private and non-private sectors. They did find HAs, including post-stock transfer organisations, were increasingly engaging in activities similar to commercial entities such as construction for market renting, for sale at market prices, and land banking. However, the recent financial crunch seriously hit the housing sector and the financing availability. Some associations found it more difficult to cross-subsidise grants for rented housing. Unsold stock and land caused further problems, although such negative impact on the HAs was far less compared to the commercial developers (TSA 2009). However, the industry regulator is sounding warnings regarding potential loss of control on the behaviours of HAs. The question remains as to how the policy framework for this sector evolves swiftly to keep the sector regulated in its core purposes and behaviours, but yet allow reasonable freedom for innovation, but at the same time motivate and reward those who have retained their priorities on meeting housing needs and strengthening community embeddedness.

HAs, in England at least, are now being pushed towards unfamiliar activities that used to be the domain of the private sector. The crucial questions to ask then are how these hybrid social enterprises could adapt and modify to meet divergent demands, and what capacities do they need to achieve this. Sacranie (2012)'s case study of a merged HA revealed that the current responses of grouped organisation towards these harsh environments were to build a strong corporate outlook through developing a business-oriented group executive leadership; adopting a hierarchy management structure to streamline order and work; centralising functions across its geographical stretched subsidiaries to achieve scale economy; setting clear organisational targets and working procedures and imposing strict budget control and rationalise spending.

To a great extent, the above features are analogous to an organisation that is in the second stage of its life cycle—directional expansion, which could overcome the limitations of informality and disarray. Yet this growth stage would eventually face the autonomy crisis, i.e., staff are not motivated because of feeling they have no control of what is happening around them. Actually such frustration was already heard from some of the senior staff in the subsidiary organisation in Sacranie (2012)'s interviews. Related to this, the question of how the group successfully transforms itself into a coherent organisation also confronts leaders. It might be reasonable to predict that different histories, cultures and structures of these subordinated entities exist and persist after restructuring and mergers, and hence divides between 'us and them' could be severe, and similar to that experienced in newly created housing associations in the first few

years after the stock transfer (Pawson and Mullins 2010). The trajectory of these hybrid HAs and HA groups could increasingly resemble that of private entities. The immediate challenge ahead, therefore, is to overcome the cultural inconsistency and the autonomy crisis. Both the leadership and management skills seem to be the key here. In the long term, both the regulators and the AH sector need to reflect on their core values, and the distribution of responsibilities between the LAs, the not-for-profits and the for-profits sector. This requires more targeted networking and political capacities, but also a more sharply defined, industrial-wide, vision and strategy.

5 Conclusions: questions, for Australia and Britain

This chapter summarises the key lessons learnt from the UK's experience in public housing stock transfer, especially in terms of:

- The implementation and management capacities for bureaucracies in recognising that stock transfer is a complicated and long-term endeavour.

- Good coordination between nationwide, state-wide and more locally based government bodies is one of the crucial preconditions for achieving large-scope change in public housing provision.

- Sufficient institutions and incentives embedded within the multiple-layered policy system are important to ensure a longer term perspective on how social housing can evolve.

- A wide range of capacities need to be developed and updated both pre- and after the stock transfer for housing associations. The issues around leadership, finance, procedure, tenant engagement and staffing are some of the highlights in this complicated process.

We believe that overall, stock transfer associations in the UK have achieved what they were set up for, and have been resilient and innovative in meeting new housing policy goals even as government grants to the sector fell and competition with private suppliers became more direct. Whereas there are lessons that the Australian governments could benefit from, the UK affordable housing sector might also learn from the former in dealing with increasingly complicated and challenging socio-economic environments that underpin its further development.

5.1 Adequate approach

In this report we have relied on key actor interviews, set in the context of reviewing related policy and conceptual literature, to assess key aspects of transfer public housing in the UK over the past 25 years. It was able to inform the key research aim, namely to highlight the capacities in governments and NFPs that are believed to have facilitated successful post-transfer providers. Paying specific attention to transfers by public bodies, such as Scottish Homes and the Northern Ireland Housing Executive, rather than relying solely on the more widely reported LSVTs in England, we believe our approach was appropriate as the former faced challenges similar to those now arising for Australian governments.

5.2 Evolving ideas

In developing the conceptual framework for the study, the emphasis of thinking broadened from tenure shift (from public to NFP sectors) to the transformation of organisations and housing systems as many accounts and policy discussions about stock transfer took an unduly static and simplistic view of change. The emergent literature on the hybrid nature of non-profit providers highlights that non-profits can evolve into quite complex organisations. The approach here suggests that consideration of the evolutionary dynamics of both organisations and

housing systems is also essential to understand what non-profits, formed by stock transfers, can become. Too often academic and policy debate cuts the problem down to what can be defined and delivered quickly. Transformation involving fixed capital assets requires a longer, more complex perspective on what organisations can become. The UK experience teaches a strong lesson that the outcomes have widely surpassed the policy expectation and design.

5.3 Capacities of governments: bureaucracies

The absence of future perspective has long run through the design and proofing of stock transfer policies in the UK and, in consequence, downplayed and underestimated capacities for change. Much of the policy design and delivery for UK housing stock transfers has focused on the capital, cash flows and services associated with meeting specified management, improvement and maintenance standards for a fixed tranche of housing over a 30-year immediate future. This narrow focus, however, pays too little attention to how transfers could transform both housing system functioning and the future of housing providers, and indeed sees non-profits simply as landlords rather than, potentially, public interest developers. Transfers relocate the ownership of housing stock, as well as debt service obligations, but they also shift social, human and other capital assets and these forms of 'capital's (e.g. the linked transfer of the human capital embedded in staff) shape short and long-term housing outcomes.

Governments and bureaucracies, from the very outset, have to shape a clear understanding of what their aims for non-market housing are and how they might be best achieved. In the UK, 'higher' orders of government (national and devolved administrations) have played important roles in setting out clear 'rules of the game' in relation to the aspects of transfers for which they had policy autonomies—such as social housing asset valuation, tax exposure, social security supports for non-profit rents, employee protection legislation, and financial and housing sector regulation. A cohesive approach between nation-wide governments and more local orders of government is essential, and without pre-empting local policy autonomies, national governments must have some sense of how outcomes in public and non-profit housing spills over to the areas in which they do have policy autonomy.

In Australia, at the very least, the Federal Government has to have an informed view of the process and possibilities, but also an audit of how its policy choices may either enhance or frustrate the choices of states. States and territories also need clarity about, and a strategy for, more specific transfer proposals and their consequences.

The study highlighted that stock transfer is almost always a complex political as well as technical process with representative, participative and trade union politics all in play. The UK experience stresses the importance of governments seeking fair and efficient transfer processes and outcomes to have the institutional and staff capacities to clearly separate the interests of consumers (tenants), producers (state housing bureaucrats and politicians) and taxpayers. In Australia, with little past experience of stock transfer, urgent attention therefore needs to be given to the capacities of state political and administrative systems to formulate and deliver strategies to reshape social housing provision.

The study makes clear that although some UK transfers developed a wider perspective, more so in Scotland than England, and that the current debate in Northern Ireland does consider a wider set of likely system impacts, the traditional approach in LSVT has used quite crude, narrow and short-term value for money assessments. Good public policy, whether in the UK or Australia, needs to strengthen the capacity for stronger evaluations of possible stock transfer outcomes than the quite crude value-for-money tests prevailing.

Transfer impacts depend on the capacity of non-profits to absorb substantial bundles of former public housing stock. This was reflected in some UK transfers such as Scottish Homes, with a bundling by 'sellers' of their stock into a series of different, smaller local transfers. It also

mirrored the role of the national housing agencies in trying to reshape local non-profit provider capacities to create scale and staffing that would effectively absorb transfers and then manage and develop them efficiently. As larger, experienced entities developed in the UK, this process became less difficult and more clearly contestable. Initially, however, the creation of new non-profits and their 'fostering and mentoring' was a crucial role for government agencies. The extent to which governments recognise such sectors as an 'infant industry' and provide a supportive framework is critical in shaping absorptive capacity. The now-resilient UK sectors were 'birthed and nannied' by national level agencies, the Housing Corporation and Scottish Homes. It is not clear how, or whether, such capacities and processes operate in all Australian states.

As the UK stock transfer sector matured, albeit with new additions each year, the arguments for 'infant industry' protection naturally diminished. In England, where there has been continuity of quango involvement in funding and regulation since 1974, there is now a steady withdrawal in support for promoting the sector and regulation is increasingly 'light touch'.

Even more importantly, UK governments played key roles in bringing the financial sector and non-profits into a new alignment that not only made debt financing of stock transfers possible but also reduced the margins charged over Libor.

5.4 Capacities of governments: politicians

Political competence and leadership was critical in shaping UK transfer bids acceptable to tenants—as transfers always required tenant ballots as well as the need to convince private sector funders to provide loan finance to, often, new organisations. From approximately 1990 to 2010 there was a broad majority in favour of stock transfer both at the UK level and in the devolved administrations (except NI) across governments. At the local level, however, many politicians failed to grasp certain critical issues—thus regarding transfers as 'privatisation' and failing to see accountabilities to local and national governments through contracts and regulation. Many politicians failed to have regard to possible future and wider roles rather than 'sectional' interests and were unwilling to make a transition in their own roles from 'provider' to enabler.

In Australia the question arises as to whether there is sufficient cross-party consensus on the suitability of transfer as a policy response to the deteriorating condition of public housing or, alternatively, are there sufficient institutions and incentives embedded within the policy system to ensure a longer term perspective on how social housing can evolve.

5.5 Capacities and non-profits

The UK research found that experts believed that non-profits were not always well-prepared, or ready, to receive stock transfers. Sometimes this was attributable to underestimating the capabilities required for change. Surprisingly, there was little attention paid to the capacities that non-profits can deploy, that may not be available within the public sector, to both manage better and take emerging development opportunities (e.g. working across municipal and policy sector boundaries).

Key capacity issues emerging from the UK fieldwork for this research included:

- The importance of creating an effective 'shadow' organisation in advance of transfer where in-house transfers occurred or new associations were created.

- With respect to large public housing agencies, the potential merit in developing a series of smaller transfers, including management buy-outs led by tenants and staff; these multi-

phased transfers appear to be less 'political', were often led by community action, and formed a basis for learning how to absorb larger future transfer tranches.

- The sharpening of non-profits' capacities by transfer bidding and balloting processes—especially through:

  — developing a coherent business plan requiring bidders to value stock, identify current and future repair costs and understand the nature of complex contracts

  — creating new human capital management strategies. (Few transfers, however, included a systematic audit and valuation of the human capital involved—transfer prices were adjusted for poor drains but not poor, or unwilling, brains).

- The imperative for tenant ballots, that was a difficult and costly process in some transfers, also generating significant shifts in how organisations engaged, listened to and managed tenants as they were central to 'customer' acceptability of the new organisations and their early governance. Their absence in Australian transfers is likely to lead to a different dynamic in service change and governance in, at least, the early years post-transfer.

- As soon as stock was transferred, most successor landlords faced significant staffing issues. This involved addressing key capacities including:

  — Different staff cultures and expectations had to be integrated as former public sector staff had been used to 'silo working' in a context where problems were reported upwards and into the political system and regarded themselves as working for the 'council' rather than the customers or community. Successor not-for-profit landlords aimed to shift the emphasis to customers and communities rather than complaints.

  — Associations absorbing stock had to develop new skills that were supplied, in the short term, by consultants. Financial, IT, strategy formation and large team management skills in the sector increased significantly. The identification of likely skills shortages could have been better anticipated in the change process.

5.6 Evolving capacities

Stock transfer associations in the UK, with few exceptions, have delivered the privately financed and housing improvement and service quality changes, within rent increases limits, that they were established to achieve. This record is evident in national figures on housing quality, and tenant and staff satisfaction reports. But more than that, there has been a significant evolution in the scales, roles and resources of many of the non-profits formed through UK stock transfers. As their staffing capacities have grown, most have expanded and diversified. Some have pursued activities focused on place-making (developing credit unions, supporting employment), or expanding complementary housing functions such as mid-market rental provision, dwelling factoring and promoting low-cost home ownership. They have often catalysed integrated social entrepreneurship in communities facing renewal; something that public authorities can find difficult. Effective management of their cash flows has created surpluses and rising asset values have allowed new opportunities to emerge. Housing associations, some originating in stock transfers, have been willing partners in extracting planning and infrastructure gains, essentially de-risking the investments of private builders.

Viewed in this light, stock transfers have contributed significantly to a new housing sector that has been innovative and creative in meeting new housing policy goals even as government grants to the sector fell. The capacities created through past stock transfers have raised the overall capacity of the UK housing system to respond flexibly and shape some progress in a now extraordinarily difficult environment.

5.7 Possible Implications for Australia

Learning from UK experience of growing not-for-profit housing through public housing transfers, Australian governments could beneficially take note of:

- The potential benefit to be derived from a systematic auditing of how Commonwealth policies impinge on state/territory actions regarding public housing transfers—for example in relation to taxes, welfare benefits and employment protection legislation.

- The arguments for assignment of designated state agencies as 'sector champions' responsible for promoting the 'infant industry' in a context of hostile (or partial), existing, producer interests—and the linked case that governments need to separate their producer, consumer and taxpayer protection roles.

- The need to broaden the housing policy perspective of Australian states/territories beyond the traditional finance-driven approach motivated by the state as a property owner and speculator rather than as a shaper of an effective housing system for lower income households.

- The possible role for the Commonwealth Government—and the industry itself—in devising and promoting good practice guidance on aspects of housing transfer implementation—for example including valuation; tenant and community engagement.

- The need for a cogent human capital strategy for organisations charged with taking on responsibility for former public housing tenancies and assets. This will call for clear assessments of the capacities and anxieties of transferring staff and how they will be met by human capital policies.

- The need to recognise that the education/information/consultation process that should accompany a major reform of public housing management can have a major pay-off in terms of giving community credibility to the new arrangements and helping to set the new landlord on a clear course.

5.8 Implications for the UK: starting over?

There are areas in which the emerging non-profit sector in the UK did not develop effective collective capacities that might have been beneficial for the longer term and that Australian non-profits could find useful in the immediate future.

Although UK associations effectively raised private investment and evolved in scale and complexity, as a sector they did not grow some key capacities. Interviewees who were more detached from day-to-day involvement in the association sector suggested that the sector might have become a little complacent about its own worth and record and looked inward rather than outward for its solutions, resulting in:

- An inability to grasp the importance of demonstrating efficiency in service provision, and indeed governments failed to shape such a framework although private financing of transfers forced some more effective service costing into their processes; arguably the UK sector can demonstrate energy, vision and diversity but it cannot 'prove' its efficiency.

- An unwillingness to understand its own evolution, so that there is little understanding of how organisations and the sector have evolved; it has not supported long- term research and advocates on its capacity to meet social needs and renew places rather than transfer housing systems and businesses.

- the capacity of, and sector support for, its peak bodies across the UK is weak in contrast to non-market peak bodies in other leading European countries with large 'social' housing sectors (for instance, the Netherlands, France and Sweden).

The problem for UK, and especially English, associations is that the failure to develop these capacities has come to matter not just in stock transfers but across the social rental sector of provision. This has occurred because the UK Government no longer sees the key boundary as lying between associations and councils, but between associations and the private market, which has increasingly advanced multiple ad hoc initiatives to arrest the fall in home ownership rates for younger households in the UK. Some larger English associations are already at the front edge of that policy wave, many are not. In Scotland, where austerity and reducing the social rental sector are not embraced by government there has been no recognition of what stock transfers have achieved, despite the obvious, long-term success of the Glasgow transfer. In England especially—associations no longer enjoy a supportive policy framework in any way remotely comparable to two decades ago.

The association sectors across the UK need to address the new policy challenges, argue the successes of past stock transfer achievements, and push government back (in England) from undue regulation, unilaterally imposed rent reductions, and new constraints on RTB asset disposal, towards an informed understanding of the past transformation achieved and the next one possible. Their potential as efficient providers of not only subsidised housing, but also new trajectories to ownership for young people and public interest developers and 'gain extractors' on scarce city land, needs to be explored and capacities developed. Perhaps the UK sector should try and understand what it might learn from Australian experiences?

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