



EXECUTIVE SUMMARY

Transformative transfers: growing capacities in UK social housing

Inquiry into affordable housing industry capacity

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Inquiry panel members

Each AHURI Inquiry is supported by a panel of experts drawn from the research, policy and practice communities. Panel members for this Inquiry:

Khalid Ahmed	Formerly ACT Treasury, now in private practice
Hal Bisset	Private practice
David Cant	Brisbane Housing Company
Phil Fagan-Schmidt (Meeting 1)	Housing SA
Annette Gallard	Private practice
Cameron Gifford (Meeting 2)	Department of Social Services
Rebecca Pinkstone	Bridge Housing and Australasian Housing Institute
Jenny Samms (Meeting 2)	Aboriginal Housing Victoria Limited
Iain Scott (Meeting 1)	Department of Social Services
Tom Slookee (Meeting 2)	South Eastern Aboriginal Regional Management Service
Peter White (Meeting 2)	Department of Health and Human Services, Tasmania
Panel facilitator: Brian Elton	Elton Consulting

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.
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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.

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.

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