Form Follows Function

Full report

Getting option reviews right for the people you house today and those that need homes tomorrow

Produced by Housing Quality Network

With thanks to Tpas and Anthony Collins Solicitors for their valuable input and advice.

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1 FOREWORD

Introduction from the sponsors

Form Follows Function is a toolkit for housing association boards to strategically assess how best to consider their vision and purpose. We see this as a box from which you can select the right spanner for the job, rather than a 'how to' guide.

The 11 sponsoring housing associations commissioned and steered the project in order to put boards and residents at the forefront of the decision-making process.

Form Follows Function provides a comprehensive review of how tenants feel about this important area of work and gives interesting and relevant case studies from housing.

It also gives:

- an overview of appropriate legal structures,
- a 'ready reckoner' to assess theoretical added value from partnership working,
- an excellent review of what academics and management thinkers have to say, and
- a helpful guide to tenants to discuss with their landlord at a very early point the pros and cons of structural change.

It consists of three key documents: the toolkit, a summary for tenants and a longer background framework.

We hope that housing associations boards will use this framework to develop their own individual strategic thinking around the best structure for their organisation. It is neither positive nor negative about any form of partnership working, including mergers and acquisitions. It simply gives us a structured approach to thinking through, with residents, what the best way forward might be.

All too often these are seen as business issues that are nothing to do with residents. This framework puts an ethos of resident involvement at the heart of decision making.

Alistair McIntosh, Chief Executive, HQN

Is merger the only fruit? It can seem that way. Ministers of all stripes over the years have asked why we need to have so many associations. Does this mean that merger is the right answer?

Here's what the Homes and Communities Agency (HCA) is saying:
"There needs to be an increased focus on efficiency and boards need to consider all options to drive value for money, including mergers if necessary." Julian Ashby 24 Housing 18/9/15

The HCA is following through. When they visit for an In Depth Assessment (IDA) they do quiz the board on its appetite for merger. And you will need to look at the pros and cons of deals like this as part of meeting the VfM standard. It's all about saving money to build more homes.

But merger is not an easy road to take and the HCA know this. They saw a spate of deals that promised huge savings and lots of new homes fall at the last hurdle. This did not go down well with the powers that be. It is true that some other high profile deals are now crossing the line. The true trend will emerge over time.

In its new role the HCA does not give consent before a merger takes place. Of course they do not want boards to come a cropper so they offer wise words of caution:

"Boards need to fully understand the drivers for any merger and ensure both that it makes strategic and financial

sense and that cultural differences can be resolved, early in the process." Julian Ashby Inside Housing 30/9/16

So where do we go from here? What should your board do?

First things first. This guide is not anti-merger. That's not what the associations that asked us to do the job or their tenants want to see. Instead we are bang in line with the National Housing Federation's campaign to own our future. For us, that means making the right decisions at the right time for the right reasons. It's about deciding what is best for your association to do (the functions) before opting for merger or not (the form). As we say the form should follow the function. Or it might be better to say we are not putting the cart before the horse.

We have looked at mergers in all sorts of sectors across the world. As you would expect some of them turn out fine and others don't. You can cherry-pick the evidence to make any point that you want to. That's not what we are here to do. Despite all the worries over Brexit we have still seen around £136bn worth of mergers involving UK large companies this year. So it makes sense to many. But it's not a one-way street. Esure is de-merging Gocompare so that both outfits can "thrive and reach their full potential". Well, that's what they say. Maybe they just want to get that annoying singer out of the office!

What does the case for merger look like in our world? Yet again you can make any point you like. The biggest associations cost the most per home to run. Yet they do build the most homes. But these simple figures don't tell the whole story. It's just not true that every big landlord is inefficient and small associations don't build homes. Far from it.

The process for option reviews we suggest gets away from the one-size-fits-all approach. We don't think merger is the magic bullet each and every time. Nor do we support those that just want to sit on their hands.

"Independence is not an aim in itself. It must be for a purpose."

CEO of a Placeshapers association

Some of the key elements of our approach are these:

- Get the exam question right: work out what it is you should be doing to solve the housing crisis in your area – it's not the same everywhere
- Involve the right people: engage with your tenants, staff and local councils and act on what they tell you
- Form follows function: pick the organisational format that is best placed to deliver what is actually needed – not what makes things easy for you or goes along with fashion
- Do what you say: produce regular reports on what you are doing to stick to your promises.

And there is an urgency to this. If we don't show we are red hot on VfM you know what is coming next. Yes, it could be another rent cut. Or we could see more fundamental change.

Ofwat wants households to be able to pick and choose who they get their water from. They think that a bit of competition would sharpen things up. Here is what the head of Ofwat is saying: "The service offers from water companies can feel behind the curve compared to the innovation customers benefit from when buying other goods. The uncomfortable truth is that when it comes to retail offers, water companies provide an analogue service in a digital age."

Now that spells it out doesn't it? If we get stuck in a sterile inward looking debate about merger the world will pass us by. And we may not get back into the race.

It's time to own our future by facing up to things. You must take tough decisions about how your association is working so that it can make the biggest impact. We hope this guide helps you. But is has no pat answers. Time to get to work.

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2 EXECUTIVE SUMMARY

Rent cuts, welfare reform, Brexit, regulatory action and new homes shortages are driving renewed interest in mergers and other alliances in the housing sector.

Registered providers need to consider how they can support tenants, help tackle shortages, and continue to make efficiency savings. Merger may be the right route for some, while others will continue to 'stand alone': no single answer will be right for all because each organisation faces its own blend of challenges.

This report aims to help organisations take the right decisions in consideration of all the factors, and to carry through those decisions to benefit stakeholders.

The approach in drawing up the report was threefold. We surveyed residents and asked their views at roundtable events; garnered the views of senior practitioners and managers; and reviewed the existing literature from housing and other industrial sectors.

Residents overwhelmingly felt they should be consulted on major organisational changes, and pointed to the benefits of such an approach. Only about a third of those who had experienced a merger were sure it had delivered on its promises. Views on the benefits of merger were mixed; and a high proportion said they weren't sure about the pros and cons.

While residents wanted to help reduce costs for themselves and providers, sometimes respondents felt they were more open to change and co-production than their providers. Even where there was concern about mergers residents said they did not want their landlord to be closed to potential change.

Development was accepted as a priority in merger activity – as long as local people benefited; the tenure and size of new homes were right for the local area; and there was also a focus on services, quality and communities. This issue of the balance between local/responsive and larger/greater capacity ran throughout the research.

Critical success factors for mergers, partnerships and group structure reforms were identified by residents as clarity and agreement on objectives, equity between partners, and the addition of value to existing arrangements.

In views and case studies from senior management, values and cultural fit emerged as a key issue. Further essential ingredients for success included clarity of vision, high quality governance, focus on outcomes and sheer hard work. The need for transparency with all stakeholders was emphasised, as was thorough and early planning for any type of significant organisational change.

Echoing the views of residents, 'merger of equals' driven by genuinely strategic considerations was seen as a key to success in Wales, where policy and practice are increasingly divergent from the situation in England.

A review of literature on mergers across all sectors confirmed the growing trend in housing toward consolidation during the 2000s. A small number of the largest associations increased their share of the stock. However, mergers as opposed to group consolidations were suppressed at times. The situation was mirrored across a number of industries.

Evidence for efficiency gains across industries via merger or acquisition is mixed. In some cases, particularly where a local monopoly is created, gains may not be realised. There may be an optimal organisation size, depending on the priority activities, beyond which efficiency gains are reduced.

A set of six recommended key principles for decision making on organisational futures emerges from this research. These are:

1. Start with your values.

2. Be clear on the problem to be solved and where the opportunities lie

3. Commit to involving residents and staff.
4. Take decisions impartially.
5. Demonstrate accountability (with measured outcomes).
6. Plan ahead.

3 INTRODUCTION

The challenges to associations are coming thick and fast. Let's just set out a few of these:

- The rent cut
- Welfare reform with benefit caps
- Uncertainty in the housing market after Brexit, which could make it harder to sell homes.

At the same time, there is a demand for lots more houses in many parts of the country.

So associations need to think about how they can:

- Support their tenants that lose out in these changes
- Work towards tackling the housing crisis
- Continue to operate with less cash.

In the midst of this, the shift towards de-regulation means that the HCA must step back a bit. So boards will need to take decisions about mergers and the like without getting these checked by the HCA in advance. Of course, the HCA will take a keen interest in what happens next. They won't be sitting next to you as the driving instructor anymore, but you will still need to pass their version of the driving test. That's the IDA.

None of this is easy. And the cuts don't just affect associations.

Mitie is a listed company that runs some of the same services. Here's what they have to say:

"Our property management business has been significantly impacted this year by local authority budget pressures and particularly by the statutory social housing rent reductions that came into effect in April. This has reduced the funding available to local authorities and housing associations for repairs, maintenance and project works. Revenue and profits this year will be lower as a result…"

"Trading and general market conditions in our healthcare business remain challenging with reduced local authority social care budgets and further evidence of unsustainable pricing in some areas. Given this further deterioration during the first half of the year, we are now reviewing the long term plan and related options for our healthcare business."

It seems we really are all in it together. So what do we do about these challenges? When he was the housing minister, Brandon Lewis said that associations should ditch welfare work and share chief executives to save money. And he was a cheerleader for big mergers that promised to build many more homes. As Brandon said, merger was "exactly what housing associations should be doing". Gavin Barwell, who took his place, is saying much the same thing.

If they'd only stopped to ask the Tory peer that ran Mitie they might have taken a more rounded view of these sorts of deals. Mitie paid £110m to take over a company that was going to give them a "scalable platform to compete in the growing outsourced health and social care sector". That went to plan didn't it? On the other hand look at the great work Sanctuary has done to sort out what was left of Cosmopolitan. These sorts of deals can work. But it's not easy.

What this guide is trying to do is to help associations think about the right decision for them. Going into a merger because it is the fashion is as much of a sin as circling the wagons.

In any case what do we mean by merger? There are all sorts of ways of bringing together associations in legal terms. But it might help us to break merger deals in housing down into three categories:

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Mandatory: These deals take place by order of the HCA. They are not always smooth. But they do go through in the end. You could say that Sanctuary taking over Cosmopolitan was one of these.

Compelling: Gaining scale to bring down costs and deal with challenges such as welfare reform and tough housing markets lies behind mergers like Torus and Thirteen. Plus, you can do more and have greater sway in the region. You can read about the Torus case study on page 19.

Discretionary: Now this is where it gets tricky. You are trying to bring together two (or more) associations that do not face any real existential threat. They can go on pretty much as they are. But they could do a lot better if they came together. These were the sort of mergers that Brandon Lewis wanted to see more of to begin to get a grip on the London housing crisis. Without the so-called burning platform some of these deals happen but others do not. It's a high risk game. If you do not deliver the homes that you promise you can expect a lot of flak.[1]

So what does all this mean for our guide? We can see that:

1. Each association faces its own unique blend of challenges.
2. There are many ways of bringing together associations.
3. Some associations think it is best to stand alone, even after a thorough examination of merger.
4. There are very different drivers for merger than can lead to different outcomes.
5. Whatever you do and however much care you take – those darn 'unknown unknowns' will come down the track – so nothing is forever.

It means that we cannot come up with a one-size-fits-all process. And we cannot give you a top-down Sermon from the Mount. It's goodbye to the old style toolkits with definite correct answers. Instead we need to come up with the questions you can use to get closer to the right answer for you.

This is what we have included:

What the tenants think: We got many long and thoughtful responses to our survey from 400+ tenants spread across 75 landlords. These tenants are ready and willing to get involved in helping you with the big strategic decisions. Many of them are undecided about whether or not merger is a good idea or not. A lot of them just don't know. They need the facts. But we got plenty of insight into the issues that will weigh on them. This will help you to plan for any consultations you need to do. Your ability to build as many homes as you can for people in need is a big deal. The tenants are not for pulling up the drawbridge.

Learning from real life in housing: We spoke to CEOs and consultants who had been through a wide range of option reviews with different outcomes. They set out the issues and explain why they came to the conclusions that they did.

1 Ipsos MORI Veracity Index 2016 – Charity CEO's trusted by only 46% of people

Hopefully this will help you do your reviews. Forewarned is forearmed.

For obvious reasons some of them spoke to us off the record. But we used what they told us in our principles for running a review.

By way of comparison we also include notes on how option reviews work in Wales and Scotland. You need a tenant ballot before a merger in Scotland. Sanctuary has gone through this process.

Literature review: We looked at the research on mergers from housing and other sectors to pull out the key findings. Put simply, we need to be crystal clear on the reasons for doing a merger. And get a lot smarter at measuring outcomes.

Form follows function – key principles: We drew together all of the research to set out the questions you need to get to grips with in any review. We don't pretend that the answers will be the same for all of you. Our experts passed on many good tips to us, so we put these in too.

Appendix 1: Choosing the right legal structure: Anthony Collins offers a series of tables that match the format to the problem you are trying to solve. And to help you plan they add a very useful timeline for going through all the stages of a merger.

Appendix 2: Is merger right for you? – A ready-reckoner: We use the HCA's cost data to show the potential gains that could come from a merger. In fairness, we point to the factors that can get in the way.

Appendix 3: Small is beautiful? Tables looking at the relationship between size and cost using HCA data.

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4 OUR APPROACH

This report is built on four elements: residents' views, senior practitioners' views, experiences from the sector, and a review of existing literature.

Residents

We asked residents for their views via a survey.

- All responses included in this report have been anonymised. In the small number of cases where names of providers or individuals were provided by residents, they have been removed
- The number of individual responses at the time this report was written stood at 411, from people who identified themselves as being involved with 75 different registered providers
- The survey was open to residents of all registered providers and was promoted by HQN through its own Residents' Network and the company website. For the purposes of this report, the data captured from the survey covered the period 28 June to 19 September 2016.

We also included views from TPAS roundtable events held in the summer of 2016.

Senior practitioners

We conducted semi-structured interviews with a range of chief executives and other senior managers of housing associations in the summer of 2016. Some have written up their own case studies.

Experiences from the sector

We asked experienced practitioners to set out their experiences and views relevant to our report, based on their involvement in mergers and partnerships, policy development and implementation, and working with residents. Case studies from across the housing sector are included in this section.

The existing literature

We reviewed a range of refereed journal papers and other reports concerning consolidation and alternatives to merger, across a range of industries, over the last decade.

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5 WHAT RESIDENTS ARE SAYING

Residents – the customers of housing providers – are key to all aspects of the housing sector. We wanted to consult as widely as possible and gain their views on organisational change to inform this report. We surveyed more than 400 residents in 2016 via HQN's Residents' Network and website.

To complement this wider consultation with residents, the Tenant Participation Advisory Service (Tpas) held a series of roundtable discussions during the summer of 2016. The questions in the HQN survey were used as the framework for these discussions.

The survey brings together the experience and opinions of housing association residents, many of whom are engaged with co-regulation, scrutiny and tenant involvement, to inform the debate around mergers and organisational changes.

Residents were urged to provide as comprehensive answers as possible to the survey questions. Many obliged and responded with views shaped by their own personal experience.

It is important to note that while the survey produced some definitive results on key questions, it also captured a diverse and, at times, conflicting range of views. These are explored more fully later on.

From the residents' survey:

"Building more affordable homes is a must."

"I'm not sure there is anything positive for residents, it all seems to be about saving money; that never leads to better service."

The HQN residents' survey: key results

- The overwhelming majority of respondents (96%) believed that residents should be consulted on major organisational changes
- A small majority (51.3%) trust the chief executive and board of their housing provider to act in the best interests of residents. 23.8% did not trust them to do so, and 24.8% didn't know whether they could be trusted
- Just 22% of respondents had experience of a housing association merger
- Of those, just over a third (34.5%) thought the merger had delivered on its promises, with other respondents split between thinking they had not (36.5%) and 29.3% unsure
- When asked if they thought their housing associations would better off on its own (as a standalone organisation), 40.9% of respondents said yes. Only 11.6% thought their landlords would be better off through merger or some other form of partnership. The largest group of respondents (47.5%) didn't know one way or the other
- A high percentage (60.7%) of respondents said they understood the benefits of a housing association being part of a larger group but just 22.8% believed that housing association mergers were a good idea. 37.3% said they definitely were not while 39.9% 'didn't know'.

From the residents' survey:

"Transparency would be good, as would, of course, lower rents."

Observations

- The 'don't knows': In many instances, respondents were undecided about 'yes or no' questions, but many provided comprehensive answers to the more open-ended questions. Although this made it more difficult to establish a consensus, the responses often came down to how residents felt more generally about their landlords, and about broader issues like the management of their providers, and the perceived importance of resident involvement

- There was an underlying positivity to the contributions that residents wished to make. While there was a desire to help reduce costs, both for residents and providers, and to work selflessly to improve the services that landlords provide, it must also be reflected that sometimes respondents felt more open to change and co-production than their own housing providers.

The full analysis of the survey results, including detailed responses from residents, can be found in the appendices to this report.

From the residents' survey:

"These changes could affect us for many years and for some for the rest of their lives."

Survey and roundtable analysis

Rob Gershon, council tenant and Lead Associate of HQN's Residents' Network, and Abigail Davies, Tpas Policy Adviser

There were a wide variety of responses to the questions in the survey. Many drew on their considerable experience of professional levels of resident involvement. A few were angry about specific issues relating to their housing providers. Others were unwaveringly positive about their landlord and welcomed the opportunity to have say about their future form and function – as well as that of the wider social housing sector.

Participants were certain that residents should be involved in proposals relating to merger, group structures or other partnerships – this was a matter of principle which was backed up by the benefits that could result for landlords and residents. The principle has its roots in stock transfer, where tenants were encouraged to feel 'ownership' of their landlord. This level of investment in a service provider's activities and brand is probably quite unusual and could usefully be harnessed by associations.

Landlords, in turn, might find much to consider in what motivated residents to take part in the consultation and respond in the way they did. There were a small number of cases where a breakdown in communications, or issues with services, meant that barriers have been established – otherwise known as the 'them and us' problem – between resident and landlord. Even in these cases the residents were usually seeking a way to break those barriers down. For a very small number, where trust has been broken, there was a desire to start again from scratch and, despite occasional words of cynicism, respondents came ready to work together with other residents and members of staff to share the benefits of unique resident knowledge, as well as the benefits of organisational change.

The ability to discuss proposals with people with a stake in the business creates new communication channels, provides a sense check, gives a 'grass roots' perspective on potential savings and opportunities for reform, builds advocates and reduces detractors, and ultimately fosters a service focus in the resulting business.

This will not come as a surprise to organisations where there is a strong culture of resident-led co-regulation, but the responses in the survey are a powerful resource that can be harnessed by organisations to see the social – and economic – value of relinquishing a bit of control to a group of experts who are often willing to work for free. Residents work for the good of the whole organisation, and with an invested interest in sustainable solutions, however changeable the commercial and political environment that drives mergers and organisational changes in the first place.

It does not matter that the primary beneficiaries may be future customers in new homes rather than current residents of existing homes. Participants were happy with development being a priority in merger activity as long as local people benefit from new development; the tenure and size of new homes are right for the local area; and there is an accompanying focus on services, asset quality and creation of communities. They were not seeking personal gain by involvement in the change. Ultimately the message from residents is that they want their landlord to be a rounded business that retains its long-term 'community anchor' role. They wanted accessibility, no disruption to services, capacity for community investment, adoption of best practices from all parties, and an influential organisation to result from any changes.

It is useful for associations to be cognisant of the kind of outcomes that tenants may value from corporate change, in order to deliver service focus and customer-facing culture.

Views on current merger activity

There were specific concerns about the current increase in merger activity. A key lesson taken from group structures/mergers of the last 15 years was that it may not be a good idea just because everyone else is doing it. A particular worry arising from reporting of recent merger plans was that the published business reasons for the change have not tended to include tenants – surely no business decision anywhere should overlook its customer base.

The general upheaval brought by corporate change was one driver of concern (impact on satisfaction, effectiveness of service), and fear of the likely realities of a larger organisation was another (loss of personal contact/flexibility).

Even where participants were concerned about mergers and potential negative consequences, they did not want their landlord to be closed to potential change. They did not want their landlord to 'miss a trick' and consequently 'fall over'.

The scope for resident involvement

Where associations retain a clear corporate commitment to involving residents in decisions about the business, these companies feel different and residents feel more comfortable that their interests and opportunities are protected. This may bring reputational benefits to the landlord as well as potential benefits to tenant wellbeing and customer satisfaction levels.

There are different ways to engage residents, and the point at which they should become involved was an interesting discussion. Several tenants had experience of being spoken to about potential mergers on 'non-disclosure' basis. They felt valued and believed early involvement enabled them to have deeper influence. They also commented that the landlord gained from having a core of residents who understood and could advocate when the proposals were announced – so there are benefits on both sides.

Holding landlords to account for outcomes

Good information and scrutiny structures can help residents to hold landlords to account for delivery of intended outcomes after merger or similar corporate change. This can be a useful way of helping associations to drive out the intended benefits once the initial heavy lifting is done.

However, roundtable participants would prefer there to be regulatory oversight and requirements on landlords around tenant access to information and scrutiny in mergers, etc. Participants made the case for resident routes to influence that did not rely on a landlord's consent.

Getting the best from involving residents

Past experience showed that provision of honest comparative information and a hands-on approach to consultation are key to maximising the benefits of engaging the wider resident base on proposals for corporate change.

Associations looking to avoid resident push-back on decisions taken can seek early agreement on desired outcomes at resident and business level and be open about plans to deal with risks.

Getting the best from mergers, partnerships and reformed corporate structures

Critical success factors for mergers, partnerships and group structure reforms were identified as clarity and agreement on objectives, equity between partners, and the addition of value to existing arrangements.

It was apparent that where landlords demonstrate that they respect and value their residents, their residents reciprocate and feel able to contribute more deeply to their landlord's strategic and operational priorities. These landlords are the proof that good resident involvement in mergers, group structures and partnerships is beneficial in practice as well as right in principle.

Conclusions: what residents are saying

Tenants do want a say when their landlords look at mergers. That's what they told us when we asked them. What really struck us, though, was just how open-minded they were.

Half of them didn't know whether or not their association was better off on its own. And 40% didn't know if a merger would be a good thing. When you think about it, 'don't know' is the correct answer. Of course, any sensible person would want to get to grips with the pros and cons of a debate like this. The tenants gave us a pretty clear steer about how they would go about picking the right option.

First, they would need to trust who was making the offer and why they were doing it. And there's a hill to climb here. Just under half of the tenants had some doubts about whether they could trust boards or chief executives to act in their best interests. You might say that this is just healthy scepticism.

We got a good idea from the tenants of how they see the pros and cons of merger. The liked the cost savings, boost to building and greater capacity that could flow from a new union. "Fewer managers would be needed in a merger so money could be saved".

But they could see the other side of it too. As their landlord got bigger was there a risk of "becoming a number instead of a person"? Would "streamlining…result in less time to do a job and sometimes shoddy work?" And could you wind up at a "huge housing association with no heart"?

That's a pretty decent summary of the merger debate isn't it? If you can come up with the right arguments you can win over the 'don't knows'.

The clincher for some tenants is what happens next. They don't just think about themselves. On the contrary, they say that they want to see homes built for future generations. What's the best way of doing that? Will the association do more on its own? Or is it better to link up with others in a merger or another type of alliance?

What to make of our findings? There is nothing at all to fear from talking to tenants about merger. They can see the case for and against and are open to rational argument. Just as you would expect. Theresa May wants consumers to have more of a say on big decisions. We could start here.

6 LEARNING FROM REAL LIFE

We've heard in the previous section from residents of housing associations. Equally important to inform the debate are the views of senior practitioners who help drive and implement decisions about their organisations' futures. We interviewed a number of chief executives and other senior managers to hear of their experiences. Some have offered their own case studies – reported here. In the second part of this section, three experienced practitioners who have worked with housing associations, policy makers and residents give their views on the current state of play in the sector.

Case study 1 – South Yorkshire Housing Association

Tony Stacey, Chief Executive, SYHA

Over the last 20 years, SYHA has considered ten opportunities for mergers and acquisitions. For some we made the approach, for others we responded to external offers. We have gone ahead with four, rejected five and one is still under consideration.

The four we have proceeded with are two acquisitions of commercial lettings agencies (instigated by us), the takeover of a specialist sheltered housing provider and a local charity providing care and support. The latter was a game changer for us as it took SYHA into the direct provision of care and supported housing using our own staff for the first time. The acquisition still under consideration relates to a specialist provider of intensive, floating support.

Three of the approaches we rejected were very seriously considered by the board and were the subject of internal due diligence reviews. The business case did not stack up for one of these mergers – the risks far outweighed the potential benefits for SYHA. The other two were larger organisations. In both situations SYHA would have doubled in size.

The board decided against both opportunities on the basis that the associations were not co-located with SYHA. Placeshaping is at the heart of SYHA's mission, and our board saw no value on stretching our geographical boundaries by 35 and 72 miles respectively. I played this out in an Action Learning Group. The other chief executives on the group said they would have changed their strategies to accommodate the mergers. SYHA stuck to its guns.

The other two approaches were quickly dealt with. One came from a large, national provider. The approach took the form of a badly-drafted email – poorly spelt and punctuated. It came from a director, not the chief executive. The second came under false pretences. The introductory letter talked about partnership opportunities, but within minutes the chief executive of the other association was asking about our chief executive's retirement date!

Our message to potential predators is – there has to be a values fit and, you do need to put a bit of effort into it.

Case study 2 – Torus

Howard Roberts, Group Director Finance and Investment, Torus

In April 2015 the Torus Group was formed, made up of a new strategically-focused parent company (Torus), two existing social landlords, (Helena Partnerships and Golden Gates Housing Trust), and a commercial subsidiary called Torus Property Solutions.

Our vision was to establish a unique and different housing group which combined the very best of local community-led approaches, enlightened governance and stewardship, and cutting edge asset management to produce a stronger, financially robust organisation with greater development capacity and the ability to achieve greater community and regional influence and impact.

The decision to form Torus came about when we recognised how closely aligned Helena and Golden Gates were in terms of values, culture and geography. The strategic benefits of coming together quickly became compelling – working in partnership to tackle challenges as a stronger joint force and realising new and bigger opportunities together.

When we set out the business case to our respective boards, local authorities, residents and employees we talked about being masters of our own destiny. Those working in social housing know all too well the changing times we live in, the challenges of the political, policy and legislative environment, the constraints of regulation and the impact of austerity measures on our tenants and communities.

There is also great opportunity – with increasing demand for homes and a desire for us to do more in the communities we serve, raising aspiration, improving life chances and promoting independence. Our ambition was to transform our business whilst retaining the trusted local identities of Golden Gates Housing Trust and Helena Partnerships.

Residents were widely engaged prior to the formation of the group. The outline business case captured their priorities and vision for a new type of housing organisation. Unsurprisingly, they wanted us to preserve a high quality of service and the level of investment in existing homes. They also wanted us to build more homes and to focus our attention on creating opportunities for all, with a particular focus on employment and the enhancement of life chances for young people living on our estates.

After 12 months of writing business cases, carrying out due diligence, seeking permissions and considering professional advice, our boards were unanimous in their support for the proposals, and one of the largest housing groups in the North of England was born.

Just two months later, in the 2015 Summer Budget, the further austerity and rent reduction measures hit Torus and the rest of the sector. Despite this, the ambition of the group was not dented. We quickly re-aligned our financial plans and have either realised or exceeded the benefits that were expected by this point in time. We are now better placed to withstand future unforeseen financial shocks whilst also having greater ability to diversify our business and enhance the scale of our development programme beyond the previous four-year target of 1,200 units.

Customers still enjoy high quality services and we have successfully achieved our targets to adapt our operating model and increasingly shift contact with our residents and service users to online and digital channels. Customers have helped us re-define service offers which has saved us money and helped us to achieve a consistent service standard for all.

The way that we fund the services we provide is also changing. In some cases we are developing self-funded service models that were previously government funded, while also working in an innovative way to deliver non-core activities that make a positive impact to people's lives.

In developing Torus we wanted to create something that inspires, motivates and excites. The Torus concept was based on the ideals of enhancing strength, improving connectivity and delivering regeneration. These characteristics sit at the heart of the Torus brand and its aspirations and have continued to underpin everything we do.

Do I think Torus has been a success? It's early days but it has been a case of so far so good. We have exceeded or attained our targets whilst successfully balancing the expectations of stakeholders, funders, regulators, staff and the boards.

The emerging Torus culture is strong. We have a determination to succeed and challenge the status quo. We are risk and outcome focused. In a sector often accused of reinventing the wheel that makes a refreshing change.

Case study 3 – CSV – an alternative to merger

Byker Community Trust

Two housing associations in the North East of England launched a new Cost Sharing Vehicle (CSV) partnership earlier this year aimed at delivering high quality services and better value for money for residents.

Rather than enter into a full-blown merger, which residents were sceptical about, Byker Community Trust (BCT) and Isos Housing Group set up a new company known as Isos Complete Support that will see Isos deliver grounds maintenance, environmental services, repairs and maintenance, income management, sheltered housing and other business services on behalf of the BCT.

The CSV partnership supplies services to its members at open book costs, enabling them to save money, as well as VAT, on these services.

As part of the new plans, the BCT is also bringing tenancy and estate management services in-house, which the organisation says will allow it to build more community-focused services.

In 2014, a comprehensive review of services was undertaken by the BCT board and chief executive. As part of that review, the board explored how services to tenants could be improved. They decided it was important to have greater control over standards of service delivery with a focus on improvement in quality and cost. They also believed they could deliver better value for money, better services to residents, and have a tighter focus on completing the stock transfer promises they had made to their tenants.

Following consultation with tenants, the BCT will deliver tenancy and estate management and other services themselves.

The new changes are expected to bring substantial savings for BCT as well as improvements in quality of service and better value for money to tenants living on the Byker Estate.

Jill Haley, Chief Executive of the BCT, explains the rationale behind the CSV: “Innovation is key in these very challenging times for business,” she says. “Housing associations have been required to make rent cuts of 1% over a four-year period which has significantly reduced our expected income levels.

“Fortunately, we were already looking at the CSV model when the rent cuts were unexpectedly applied by government and my board were resolute in their expectation of making sure that we delivered higher quality services to residents at the same time as reducing overhead costs.

“Partnering with Isos Housing in a CSV is an ideal model as they are an organisation who share very similar values and ethos as the BCT. More importantly, they have the same drive for greater value for money and improved quality and the cost-sharing model will allow us to achieve this together.

“BCT’s new ‘Byker Approach’ housing management model will enable us to work much closer with residents, it will create the opportunity to listen to every person’s views and suggestions on how to improve services and their neighbourhoods, whilst making valuable efficiency savings along the way.

“These are very exciting times for BCT, the changes support our next steps towards delivering our vision and the Byker stock transfer promises.”

The BCT, which owns 1,800 homes, commercial property and land on the Byker Estate in Newcastle upon Tyne, was created in July 2012 following a stock transfer from Newcastle City Council after tenants on the estate voted in favour of the transfer to the BCT in a ballot.

Isos Housing Group owns and manages 17,000 homes across the North East.

Case study 4 – Merger: the movie

Peter Brown, Chief Executive, Herefordshire Housing

There's a queue outside my office door. Not an ordinary queue. Not a queue you can see, but it's there. I'm the only one that can see it because the visitors span over 29 years. That's not the only reason the queue is imperceptible. The visitors only come to see me, and only talk to me. It's not secret, but it's not public either.

I remember the first, although, to be fair, this was just a telephone call. Way back in 1987, I had been appointed as a chief executive of a small community housing association. Naïve, brash, probably a bit cocky. I had heard that a larger housing association was in financial difficulties so I phoned the then Housing Corporation. If they were being broken up, I'd have their local properties, I proffered. Silence was the stern reply until a week later, the CEO of the larger, struggling housing association phoned me. The offer had been turned on its head. "It would be better for tenants, I could keep my job, there would be a degree of autonomy, it would be better for everybody," he claimed. I informed him that I had only been in post for a few months and I was unlikely to give it up now, if he wanted to pursue it, he should talk to my chair. My contacts told me he was upset by my affront. I've never spoken to him since.

We had a successful innings. A decade of housing association grant, we built a thousand properties and occasionally CEOs of larger housing associations would pop in 'for a catch-up'.

Then the stock transfers took off. Within three years we were surrounded by new, bigger, richer housing associations and more were in the pipeline. Our time had come and I opened discussions with one of the first group structures in the country. It seemed right, it was exciting; we were building a new organisation. It would be better for tenants, there would be a degree of autonomy, it would be better for everybody we agreed. And it was, it worked.

Just over two years in and it was my turn to leave.

I joined my first stock transfer housing association, CEO of the largest subsidiary. It was a bizarre organisation that was hell bent on self-destruction. I remember their heated discussion in the senior management team on whether dress-down Friday meant you could wear jeans. I didn't stay long and, soon after I left, they had merged with a much bigger association.

Today the occasional visitors wanting a catch-up has become a steady trickle. Some are blunt and honest. Some try persuasion, some try playing the long game. Working together, collaborating on projects, forming links with senior managers, even getting their place men on your board. It has all been tried. And what I mind is not the mendacity, not the plotting and chicanery. It's the blind arrogance that's upsetting.

My response has moved on. Now I take them round the office and tell them to look into the eyes of colleagues in HR, in IT, in the development team. Talk to the people in the accounts team and others, hear about their lives, their partners and children. About the local school, their hobbies, their volunteering. Then think about the local economy, the community. Think about how those deep connections affect service delivery, how those colleagues go the extra mile when something goes wrong. Then tell me how your merger, your group structure can survive without centralising all those services. Tell me how their redundancies will improve service delivery.

Of the ten housing associations I have worked for, only the current one and the one before that still exist. The properties are still there, no doubt many of the same tenants remain, but the surrounding organisations have long gone. Merged. And the evidence repeatedly shows that bigger isn't cheaper and bigger isn't more efficient. It's organisational culture that delivers results. Organisational culture needs to be created, cultivated and nurtured. And to manage, you sometimes need to be able to see it. Make the organisation too big and it becomes unwieldy. Many won't agree, but the truth is that there has to be centralisation to reduce costs, and most mergers aren't better for tenants.

Case study 5 – Scotland

There must be a ballot before a merger can go ahead in Scotland. So it is worth looking at how things work there. Can we learn any lessons?

The Scottish Housing Regulator (SHR) starts from a different point from the HCA.

"We regulate to safeguard and promote the interests of tenants and other service users."
SHR

By contrast the HCA's remit is largely about economic matters. Of course the SHR does look closely at the finances of associations. It has to. But there is a lot more emphasis on tenants than you see in England these days.

Do these ballots stop mergers going ahead?

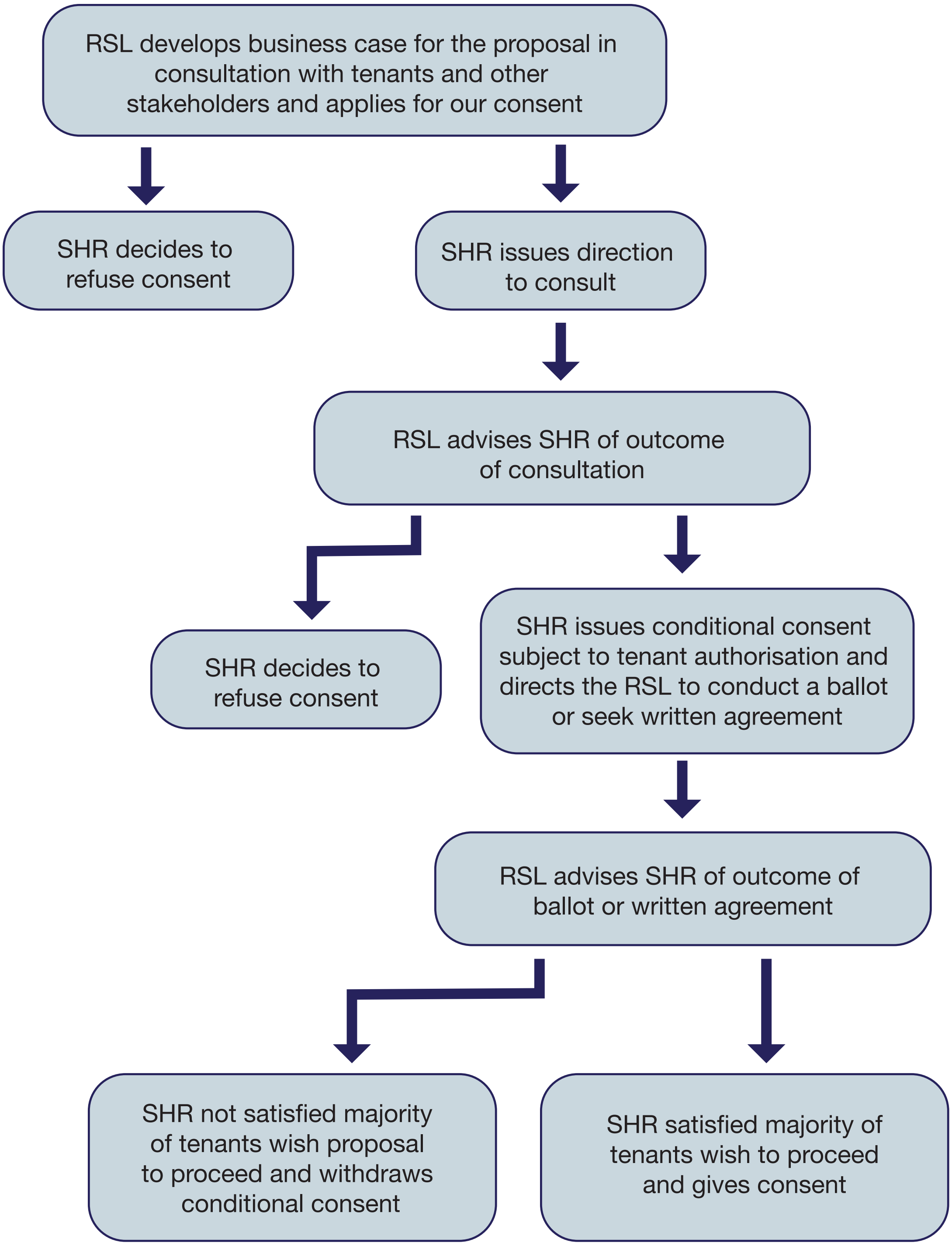
Not at all. Let's look at some recent results:

Proposal	Turnout	In favour
Barony merges with Wheatley Group	40%	92%
Sanctuary Cumbernauld merges with Sanctuary Scotland	32%	85%
Tenants First Housing Co-operative merges with Sanctuary Scotland	41%	85%

Points of interest include:

- Independent tenant advisers were used in all cases
- The Sanctuary Cumbernauld turnout may be low as the tenants thought they were already part of the association
- Incentives were offered – Sanctuary and Wheatley offered extra investment in tenant's homes and Sanctuary passed on lower rent increases
- Where there has been a previous stock transfer (eg, at Cumbernauld) there must be "no detriment to tenants in relation to pre-transfer commitments"
- If an association is in immediate financial jeopardy and there is no time to hold a ballot the SHR will take steps to ensure that tenants' needs are taken into account
- The Scottish Government is seeking to meet the concerns of the ONS and get associations classified as being in the private sector. In doing this the Scottish Government wants to keep the need for ballots.

Here is the Scottish consultation process:



Here is the whole of the Scottish business case requirements including the requirements for consultation:

Information required	Comments
Strategic objectives	The rationale for the proposal should be described.
Options appraisal report	This should describe the options the RSL has considered and demonstrate the anticipated costs and benefits for each of the options. We will normally expect the appraisal to address a range of options based on the strategic objectives.
Proposed governance structures and responsibilities	We expect the RSL's proposed governance structure to be simple and clear, and allows the RSL to meet our Regulatory Standards of Governance and Financial Management. It is the responsibility of the RSL's governing body to satisfy itself that any proposed organisational and constitutional changes are in the best interests of the RSL and are in line with legal and regulatory requirements.
Intended benefits of the proposal and supporting evidence	The business case should clearly set out how the RSL's proposal will benefit current and future tenants. We recognise that the specific issues a proposal intends to address may influence the range of benefits involved. Issues to address may include: • improvement or stabilisation of service delivery standards; • expansion in the range of services the RSL partners wish to provide; • impact on tenants and other service users; • impact on opportunities for tenant involvement; • improvement in physical quality of the housing stock including meeting the SHQS; • rent levels; • potential for efficiency savings; • enhanced borrowing capacity; • enhanced financial viability; • impact on staffing; • long-term support for a partner RSL
Business plan and financial issues	Explanation of key assumptions, demonstrating how the objectives and intended benefits of the proposal will be met. We have produced Business Planning Recommended Practice for RSLs and this is available on our website.
Employment and pensions issues	Describe the impact the proposal will have on employment and pension obligations. The business should include a report by the RSL's professional advisers, describing the key issues and proposed methods for managing these issues. From experience, we do not recommend joint employment and joint ownership of assets because it can lead to confusion and conflict.

Information required	Comments
Risk appraisal and strategy	Describe the key risks affecting the proposal (during both the implementation period and longer-term risks) and methods being used/proposed to manage mitigate and manage the risks involved.
Legal issues	Confirmation the proposal will not cause it or any of its potential partners to breach their objects or legal status, for example (if the proposal involves one or more charitable RSLs). We request that confirmation should take the form of a letter or report from the RSL's legal advisers.
Tenant consultation	RSLs should have a clear communications/consultation strategy that allows tenants and other service users to feed into the development of the proposals. If an RSL formed as a result of Large Scale Voluntary Transfer or some other stock transfer arrangement, proposes to create or join a group it should confirm that there is no detriment to tenants in relation to pre-transfer commitments.
Report outlining consultation with other stakeholders, and outcomes of consultation	This should include, where appropriate, the RSL's members, employees, funder, relevant local authorities any careprovider partners, public investment funding bodies, and where relevant the Scottish Government. The range of stakeholders should reflect the nature of the RSL's business.
Consultation with other regulators	Where relevant, a copy of OSCR's in-principle consent should be provided. In accordance with the procedures, we have agreed with OSCR, this will be conditional upon our consent being granted. We will also require confirmation other regulators are consulted on the proposals, where this is relevant.
Funding and contracts	A description of how the proposal will affect any contracts or covenants with other parties should be provided, along with confirmation of lender consent to the proposal.
Implementation project plan	Implementation plan prepared with input from legal/financial advisers, outlining proposed methods for managing the remaining stage of the process. This should highlight key issues and milestones. We also expect an implementation plan to include information about the RSL's plans for establishing robust monitoring systems. This is to ensure the RSL can achieve and evidence effective delivery after the proposal takes effect, for example in relation to service standards, operating costs and investment levels.
Governing body approval	Copies of relevant governing body reports and minutes to demonstrate the governing body has considered, scrutinised and approved the proposal.

Bibliography

SHR Group structures and constitutional partnerships August 2015

SHR Consent to Organisational changes ditto

SHR Consultation where the Regulator is directing a transfer of assets ditto

SHR Consultation where consent is required ditto

Sanctuary Scotland Our Merger Proposal – Sanctuary Cumbernauld and Tenants First

Two mergers in Scotland following tenants' votes of approval – Inside Housing 23/2/16

Expert view 1: Flexible Friend

When it comes to mergers, Owen Ingram knows a thing or two. As a specialist Interim Housing Chief Executive he has been involved in many different types, born from a range of circumstances. Here he provides some insight into specific experiences – and provides some advice.

The internal merger

Whilst interim CEO at Amicus Horizon, I collapsed the group structure, simplifying it. Amicus were under supervision from the Housing Corporation (now the HCA) and there was a need to strengthen and improve the governance structure and address service delivery issues. The new group structure reduced the group board and its 11 subsidiaries (seven were housing associations and four of which were LSVTs and all of which had their own boards and CEOs) to a single housing provider, with a care subsidiary and a commercial subsidiary.

The change required consent or approval from five banks, four local authorities, the residents of the LSVTs and the housing regulator.

Key challenges

Convincing residents of the benefits of change was hard. The collapse of the board structure reduced the total number of seats from 65 to 12. Originally there were no proposed seats for residents on the remaining board. To address this and ensure appropriate levels of accountability and resident scrutiny, an area board structure was created, providing residents and other partners with a voice. This was the first resident scrutiny structure of its kind.

The local authorities of the four LSVTs were also concerned about the proposed loss of influence at the group level and control at the subsidiary level. This turned out to be the biggest risk to the change. Their consent was hard won, achieved by identifying the objectives driving their concerns and finding other ways to meet them.

The eleventh-hour crisis (there's always one) came from the banks who had previously given their in-principle consent, but at the last minute announced that it would be conditional on the repricing of the loans. The impact on the business plan would have been fatal. Fierce negotiations involving myself, our interim FD and the Chair, Lord Faulkner, resulted in agreement to an affordable (just) one-off administration fee.

Top tips

- Have a clear vision and stick to it even when challenged – be creative in addressing issues rather than compromising on the vision itself
- Establish a transition team comprising representatives from all key internal business groups – this got buy in from the executive team and staff which was crucial to the success of the proposal. Even more important in this instance, because I was also seeking improvements to service delivery
- Be transparent and keep all stakeholders in the loop – in my experience, it always works better than playing games.

The non-merger

I was appointed by the Cottsway board following the retirement of the CEO and the resignation of their FD. They were under pressure from the HCA due to problems with their loan securitisation. They were a developing association, but development was put on hold following low governance and financial viability ratings. A merger was perceived as the solution.

A recent review of governance, initiated by the HCA's findings, gave an opportunity to strengthen the board's mix of skills and experience. This might seem an odd thing to do when a merger is on the cards. However, you need a strong board to make good decisions. As it turned out, the decision to merge would not have been in the interests of Cottsway's residents. But even if it had been, a decision in favour of merger would still have been best taken by a strong board.

A potential merger partner was identified, but during the due diligence period, two things happened. Firstly, it became clear that Cottsway's financial position was stronger than first thought. The securitisation issue was largely an administrative error, their covenants were unduly restrictive and there were significant efficiencies to be found in the running costs. A revised budget, renegotiated covenants and improved financial controls obviated the main driver underlying the merger. Secondly, the merger partner underestimated the need to develop a compelling offer. They seemed to see the merger as a fait accompli and the strengthened Cottsway board couldn't see any positive impacts for their residents or staff, so they walked away from the deal.

Key challenges

Cottsway is the main housing provider in the former prime minister's constituency. It raised the stakes, but I was able to use that to the advantage of the association by considering him a key stakeholder.

Persuading the HCA that independence was not only viable, but the best solution. We had difficult but respectful discussions and reached agreement over time. I invested heavily in developing this relationship, at both executive and non-exec levels. In the end, what made the difference was having a robust business case that established Cottsway's financial viability and continuing capacity to develop.

The transfer agreement with West Oxfordshire was largely unchanged from the time of transfer, so they had retained their golden share, control over lettings and all Right to Buy receipts (not insignificant in that part of the world). It never came to it, but the agreement would have had to have been renegotiated as part of the merger; I'm not sure what the cost would have been to secure their approval.

Top tips

- Strengthening the board was vital – don't ever leave these things to chance. Use your networks to attract quality candidates
- Keep the HCA informed and on side, as far as is possible. They are the regulator – working with them, rather than against them always makes sense
- Do your due diligence and remember, it's much more than an accounting exercise
- Understand where the power lies and manage it to the best of your ability.

The rural merger

Moray Housing Association sought my help delivering the recommendations from a review of governance. They had been in supervision for around five years, their CEO was on long-term sick leave and one of their senior staff was acting interim CEO. After a short time, I unearthed problems with the business plan and weaknesses in their financial controls, and the board appointed me interim CEO.

Sadly, their size (around 400 units), the dispersed nature of their stock and the overall condition of their estate rendered them unviable. Merger was their only option.

Key challenges

Identifying a merger partner was difficult, due to the rural location of the association. There were simply very few other housing providers in the areas, so there were no obvious efficiencies of scale to be achieved and the financial pressures faced by Moray required not only a solvent, but a financially strong, partner.

Once again, the lender made consent dependent upon repricing of the loan and an administrative charge. The agreement stated that consent couldn't be reasonably withheld and I sought counsel's opinion which suggested that they were on the edge of that condition. Whilst it wasn't clear cut, it bolstered our case. Eventually, we wore them down.

Even though Moray had no other option but to merge, the success of the merger still rested on developing positive relationships between the respective boards. This took a lot of investment, as the partner association was not particularly local, but was worth it as agreement was readily reached when the final decision came to be made.

Top tips

Always approach mergers as a partnership, both sides have to gain. This usually means that the respective organisations should be of similar size.

A suitable partner is not just one that resolves the immediate problem. The need for a strong cultural fit is well understood and we've all seen mergers fail where the cultural fit is poor. But there are three further factors that should always be considered:

- Will the service to residents improve?
- Will staff be well treated?
- Will best use be made of the finances?

As I've already said, don't fight the regulator. They can be won over with a well-argued, evidential case, but if you can't persuade them you're right, remember that you can't fight City Hall!

Expert view 2: Wales is different

Keith Edwards, former CIH Cymru director and lead associate of HQN's new Welsh housing network, provides a view from across the border, analysing how the different policy landscape has affected the size and shape of housing associations and their approach to mergers.

"A different narrative and agenda for action are being developed for housing in Wales. Nothing illustrates this better than the whole system approach."

HQN members briefing, March 2016

Hello, we're your neighbours. I'm sure you're very busy with better things to do than stop and chat, what with all your problems in England with the 3Rs: rents, Right to Buy and re-classification. It's a shame though, because we are very interested in what's happening your side of the fence. Not in a nosey way, but because, for a long time, where you lead we've tended to follow. That's changing though. Nowadays it's not unusual for us to take a look and pick the best bits from what you're up to. Or even decide it's not for us at all. You're even starting to take an interest in one or two things we're doing.

Take housing policy. It's not yet apples and pears, but the read across from England to Wales is getting more difficult. In the early days of devolution, differences were largely nuanced as politicians in Cardiff Bay, keen to strike out in their own direction, tweaked a 'made in England' policy here and there. As confidence grew so did the desire for 'clear red water', initially, let's not forget, between a *Welsh Labour* administration and a *New Labour* UK government.

The contrast started to become a chasm when the UK coalition government took office, even more so since the Tories returned to power on their own in 2015. At the core of this is a different primary policy objective; for the Tories, promoting home ownership is totemic, standing above all other priorities; in Wales the focus is on a 'one housing system' approach recognising that social and private renting also have a key role to play and that movement and flexibility between sectors is key to meeting housing need. Factor in the irresistible force of a UK-driven austerity agenda meeting the immovable object of Welsh Government's pursuit of social justice and the disjuncture intensifies.

Increasingly, a case can be made that our approach works better for a small country. There's a general view – particularly with incomers from across the border – that housing is more joined up, access to government easier and partnership working more embedded and, in combination, these are starting to deliver results. The target for affordable homes under the last administration was exceeded, the successful *Houses into Homes* initiative to bring empty properties back into use has been extended and local authorities, encouraged by government, are building council houses again for the first time in decades. Driving up standards in the private rented sector, backed up by legislation is also beginning to have an impact, with all landlords required to register under the *Rent Smart* scheme by November 2016.

Innovation is also encouraged by for example harnessing wider social and economic benefits of housing investment based on the i2i *Can Do Toolkit* and this approach is likely to be a component of our value for money framework. Supporting the development of co-operative housing and innovative finance models are growing in importance as part of the wider housing strategy. Perhaps most surprisingly, the direction of policy creep recently reversed with CLG seriously looking at emulating Wales by placing a legal duty on councils to help people in housing crisis after a 67% decrease here in homelessness in nine months.

Going with the grain

"Delivering 20,000 affordable homes over the next five years [requires] joint working with partners including housing associations, local authorities and house builders … for development of all tenures of housing."

Carl Sergeant AM, Cabinet Secretary with responsibility for housing, Welsh Housing Quarterly, July 2016

The greatest contrast with housing in England is in relationships between housing associations and government. As one Welsh CEO, who for obvious reasons wants to remain anonymous, put it: "The basic differences are that our government doesn't hate us, we haven't stabbed our local authority colleagues in the back and we all share a view that social housing is a good thing". Interestingly there are no plans for sustained cuts to social rents and a clear focus on investing more in social housing than home ownership.

Of course, we need to be cautious. Treasury pressure plus the potential paralysis of a minority government in Cardiff Bay could still threaten the accord with the sector. Anyway, this is far from a cosy, complacent arrangement. In an early policy announcement, our affordable homes target was doubled from 10,000 to 20,000 during this five-year Welsh Government term. The Supporting People programme, largely protected so far, will come under much greater pressure this time around. And reclassification is coming here too and the challenges and responses to it are likely to be the very similar both sides of the border.

The relatively small size of Wales can sometimes be a curse – there surely can't be a more gossipy sector than ours – but it is much more often a blessing. It means we live in a world where everyone knows each other and has access to decision makers, the range in size between smallest and largest association is much less and the social purpose v commercial mission tension is less evident.

Our 35 or so housing associations fall broadly into six categories: *community based*, usually under 2,000 homes and operating in a single local authority area; what I've termed *community plus*, small to medium traditional housing associations mainly operating in one council area but with activities in neighbouring authorities; *medium sized regional* associations with between 2,000 and 5,000 houses covering a number of local authorities; *large regional associations* extending across the majority of Wales' 22 council districts; *standard stock transfer associations* that chose not to adopt mutual rules; and the *mutual stock transfer associations* that did. All will be developing their long-term strategic thinking at the moment.

Merger mystery

"The name of the game here in Wales is delivery. If that means merger is the answer, then so be it. But I think it is time for organisations to ask themselves those questions about what is the right thing – and they are very difficult questions to ask."

Amanda Davies, CEO Pobl Group, Inside Housing, April 2016

Although there is some pressure from the regulator for organisations to consider the merger option during strategic reviews as well as at times of crisis, there is no equivalent of the English merger code and, although there has been a steady trickle of mergers over the past ten years, it hasn't really taken off.

However, although you couldn't call it merger mania, there are signs of greater interest over the last couple of years. The recent coming together of two large regional housing associations and the still controversial proposal for the takeover of a small rural association by a much larger partner are the most obvious examples. Less visibly, a greater number of associations than usual are carrying out option appraisals although no new mergers are currently being proposed, at least in the public eye.

With one exception, the most recent Welsh examples below have more or less been, as Amanda Davies termed it, 'merger of equals' driven by genuinely strategic considerations.

Pobl Group: Grŵp Gwalia and Seren Group

Instantly becoming Wales' largest social landlord, Pobl Group was formed in April 2016 with the coming together of Grŵp Gwalia and the Seren Group. It manages more than 15,000 homes and employs around 2,500 people. The formal exploration process started in April 2014, although it was originally floated as an idea for the care and support subsidiaries of both partners a few years earlier. The new group CEO has been clear that the merger is about doing more to meet housing need with plans to build 3,000 homes in the next five years, a 35% increase in what partners had previously planned to deliver on their own.

Cymdeithas Tai Cantref and Wales and West Housing

Tai Cantref is a social landlord based in Newcastle Emlyn, operating in mainly rural communities in west and mid Wales where a high proportion of the population are Welsh speakers. It has around 1,700 homes and employs 70 staff. Following a Welsh Government's statutory inquiry that uncovered "evidence of mismanagement" shareholders voted in favour of merging with Wales and West Housing a landlord managing more than 9,500 homes in 12 local authority areas across Wales and employing 350 staff. The merger decision has proved to be controversial with local and national politicians raising concerns and calling for a further enquiry.

Grŵp Cynefin: Tai Clwyd and Tai Eryri

Grwp Cynefin operating across all six North Wales counties and north Powys. It was set up following the merger of Cymdeithas Tai Clwyd and Cymdeithas Tai Eryri in 2014. The association provides more than 3,700 homes for rent as well as more than 700 shared ownership properties. It employs around 160 people and has assets of around £300 million. Both organisations operate bilingually, working in the areas of Wales with the highest proportion of welsh speakers and a large number of dispersed rural settlements.

Cynon Taf Community Housing: Cynon-Tâf and Pontypridd and District Housing Associations

Cynon Taf Community Housing Group was formed in 2008 and works throughout the east and south of the county of Rhondda Cynon Taff. The Group manages approximately 1,850 homes, around half of which are rehabilitated terraced housing, and the rest new homes for rent. It employs around 70 staff. Both partners were community-based associations that saw clear advantages in merging in a post stock transfer world.

Coastal Housing Group: Dewi Sant Housing Association and Swansea Housing Association

Coastal Housing Group was formed in 2008 after a merger between Swansea Housing Association and Dewi Sant Housing Association, with the objective of regenerating older stock and building new houses in Swansea, Neath Port Talbot, and Carmarthenshire. It has over 5,000 properties for rent and for sale as well as specialising in inner city regeneration in Swansea. Coastal employs around 170 people.

What happens next?

"If a reaction to policy is driving mergers in England, the political climate, as far as the housing sector (in Wales) goes, is relatively sunnier compared to the other side of the border."

Inside Housing, April 2016

Since Corlan Housing Association collapsed over 25 years ago, we've generally avoided spectacular failures here, although there have been a few scary moments recently. That association became insolvent in 1990 and its assets were taken over by Wales and West Housing. Although a long time has passed since Corlan's demise, in a sense it still casts a long shadow over regulation and behaviours. Such is the collective memory of a small sector in a small country.

There are many and increasing contrasts with England but the fundamental issues around partnership working up to and including merger are very similar. Pressures on budgets and business plans, the chronic problem of undersupply of affordable housing and increased public scrutiny of housing associations inevitably mean a greater focus on value for money and efficiency. At the same time governments across the UK expect associations to deliver more homes and, in Wales at least, that social and economic benefits for communities will be an integral part of this.

Not to look at a full range of collaborative options, whether by sharing costs, joint commissioning and procurement, developing jointly-owned vehicles or even merging, is therefore an unsustainable position, hence the increased interest in full options appraisals. At the centre of this is a basic question, pitched in CIH Cymru's Welsh Housing Review 2014, that all forward-looking associations should be asking themselves: what will we become? If associations are to answer this honestly, they need to consider a number of factors.

Firstly, merger is not the inevitable endgame and needs to be set in the wider context of partnership working. The rationale behind previous mergers in Wales has varied. Only rarely has it been driven by crisis and then usually accompanied by regulator or lender pressure or both. The key thing is to objectively assess all options and ask the really hard questions honestly.

Secondly, maintaining independence is not a strong enough motive to soldier on regardless. Conversely conceding autonomy to deliver the benefits that might come with greater collaboration does not have to be at the cost of diluting values.

Thirdly, all too often option appraisals take a cavalier attitude to tenant consultation. The stock transfer process in Wales, with high levels of engagement throughout and a ballot at the end, contrast with what is often a tokenistic and superficial approach from traditional associations. Genuine, early and continuous tenant involvement should be hardwired into option appraisals.

Fourthly, if the perfect merger is one of equals, it is never one of clones. The really interesting synergies will be around housing associations with different strengths and weaknesses that can complement each other through greater collaboration. Stock transfers joining forces with regional traditionals might be one area to keep a close eye on.

The expectation of government and the existential pressures that might be around the corner for associations, mean we are likely to see an increase in interest in mergers in Wales moving forward. It may not always be the right answer but it has to be on the list of difficult questions.

Conclusions: key messages

The fit of values and culture emerge as key issues, together with clarity in what the drivers are and what you want to achieve. The questions of local presence and responsiveness versus the advantages of size must be considered carefully. Further points include:

- Working in a regulatory environment can be a challenge for boards. Keeping the regulator on side is nearly always the right thing to do

- Don't be bullied into submission by the lenders. Your job is to protect the interests of the residents – some of the poorest of our society
- Be open and transparent – with residents, the lenders, the local authorities and other partners, the regulator, but most of all, with staff. They bear the brunt of these changes and the impact on them can be easily overlooked. Involve them in the transition as much as you can
- Pay attention to those stakeholders who have the final say, engage with them from the start, understand their needs and find a way to ensure they are met. Otherwise they may surprise you.

7 LITERATURE REVIEW

Janis Bright, Lead Academic Researcher, HQN

In this report so far, we have considered the views of residents and the experiences of senior practitioners. Now we widen out the debate to consider what is already known about mergers and their alternatives. We look at the housing sector and other public, voluntary and commercial sectors.

The social housing sector in the UK has seen both creation of new organisations (principally via local authority stock transfer) and consolidation via mergers and the process of collapsing structures within complex organisations. The latter have numerically outweighed the former. Within the UK, these changes have taken place principally in England. In mid-2016 there is renewed interest in mergers, driven by the financial climate and regulatory demand for greater efficiency.

While many news stories have been published concerning mergers and partnerships in the housing sector, there are relatively few in-depth studies available. In contrast, there is a large literature about private sector agglomeration (clustering) and consolidation. This paper reviews published research into mergers and other types of consolidation in several industries, across a number of countries. The timeframe is from the mid-2000s to date. Definitions are given separately at the end.

The housing sector

Pawson & Sosenko (2011, pp1-3, 2012 p785) identified four types of constitutional change taking place in England's HA sector, and recorded the number of transactions between 2002 and 2010. These were: enlargement of an existing group (90), group structure set-up (27), merger (52), and group consolidation (117). In all, some 43% of registered organisations were involved in these constitutional changes, covering 65% of the stock. The authors also comment on the increasing concentration of stock held by the largest organisations. In 2010, the 20 largest entities owned more than 30% of the stock and four groups each owned more than 50,000 rented homes (*ibid*, p800).

However, the authors demonstrate that transactions other than group consolidations dropped sharply in the wake of the financial crash, after peaking in 2006. This seems to result from lenders' keenness to use the opportunity to reprice an entire portfolio following transactions, increasing the costs (*ibid*, p795; Mullins 2010 p21). Merger activity is therefore suppressed. Nonetheless the government's imposition from 2016 of 1% per year rent cuts and other new legislation affecting business plans, together with HCA comparison of costs and warnings on upholding the value for money standard (HCA 2016), seem set to trigger fundamental business reviews in the sector.

Other places and industries

Housing is far from alone in seeing consolidation activity over a long period. International comparisons of housing sectors also find this type of activity taking place – for example, in the Netherlands (Koolma, Hulst & van Montfort, 2013). There has long been anecdotal speculation that the UK social housing sector could go the way of the building societies, drastically reduced in number and with all of those that converted to banks having since disappeared through takeover or failure (Michie, 2015, p8). The banking industry itself has been dominated by a small number of large organisations, leading to the problem of 'too big to fail' (*ibid*, p9).

Archer & Cole (2014, pp100-101) chart the consolidation of the housebuilding industry to a point where by 2006 the top ten housebuilders accounted for 46% of new housebuilding. The beer industry is dominated by only four firms that by 2012 accounted for half of global sales (Howard, 2014). The US community banking sector has seen extensive consolidation in recent years (Lux & Greene 2015), while in the public sector, hospitals, higher education and schools have all seen increased merger activity (Pinheiro *et al*, 2015). Mergers in the charity sector are more unusual, but not unknown and the number is growing (Social Finance, 2012).

In some infrastructure industries, however, there have been government and regulatory attempts to bring about greater fragmentation and thereby competition. In the UK, this is principally in the longer term aftermath of privatisations, in industries such as telecoms, gas and water (Pollitt & Steer, 2012).

Reasons for considering a merger or acquisition

A variety of reasons have been put forward across industrial sectors for consolidation activity. Those overtly stated may include economies of scale (efficiency gains), influence with lenders and local authorities, and increased ability to build new homes. There can, of course, be several goals in parallel. In the private sector, return to shareholders is seen as a core requirement. In the public and third sectors, during 'austerity', efficiency gains are generally regarded as key. Particularly where prices/rents are controlled, reducing duplication and providing better quality services may be seen as a top priority.

A clear push factor can be found in the shape of regulatory intervention. Indeed, Lux & Greene (2015, pp21-22), a study of US community banking, identified regulatory burdens and activity as a key factor in a sharp consolidation of the sector. First, they said, larger banks are better suited to handle post-crash heightened regulatory burdens, and secondly, banks were reportedly engaging in 'buying sprees' once they crossed the turnover threshold that triggered stronger regulation.

In the UK social housing sector, direct regulatory intervention (in rescues of HAs in difficulty) is likely to drive only a minority of transactions. Voluntary action to achieve perceived benefits is far more likely, but the regulatory climate remains a powerful force. Van Bortel *et al* (2010, p360) cite regulatory intervention and a reduction in the number of investment partner associations receiving grant funding as two key drivers of mergers. As Mullins (2010, p35) points out: 'In a business where rent is easily the most important trading income stream, regulation has a very direct impact on financial viability as well as the relationship between landlords and tenants.'

The current 'value for money' focus in regulation in England suggests that HAs will look closely at economies of scale, with, for example, shared/integrated back-office functions and consequent projected cost savings. Increased scale may be seen as a lever in securing better terms from lenders, or in negotiations on development. Dutch HAs rated better market position, professionalisation and improved service delivery as their prime motives (Van Bortel 2010, p361). A study of the Australian HA sector (Milligan *et al*, 2015) reported that CEOs believe 'sustained growth strategies and achieving larger scale entities are necessary to leverage organisational capacities, improve efficiency and to promote the sector's potential to government and market partners'.

However, many other motivations have been suggested. Veenstra et al (2016) offer this list from other studies: 'herding (Scharfstein and Stein 1990; Devenow and Welch 1996), hubris (Roll 1986), entrenchment (Shleifer and Vishny 1989), empire building (Rhoades 1983) and institutional isomorphism (DiMaggio and Powell 1983).'

Are proposed benefits of merger actually realised?

The starting point to answer this question must be: it depends what you are trying to measure, how you measure it, and when. Published studies of mergers and outcomes reveal a mixed bag of possibilities. Generally, the focus is on whether operating efficiency is improved, reflecting both priorities and that this is relatively straightforward to measure, compared with for example improved quality of service, whether local communities are served better, or whether governance is improved (Pinheiro *et al*, 2015, p21).

In the housing sector, the HCA (2016, p18) has found no statistical correlation between size of HA and efficiency in terms of unit costs: larger organisations do not necessarily perform better on this measure. This was also a finding in Lupton & Kent-Smith (2012, p4). Veenstra *et al* (2016) suggest that diseconomies of scale 'may set in due to increased internal complexity and weaker connections with customers'. They comment: 'The unit cost of (public) services is often assumed to be u-shaped, reflecting economies of scale … for units below a certain critical size and diseconomies of scale for larger organisations.' The point was also made by CIH (2007) which put forward different optimal sizes for organisations, according to which type of activity they regarded as top priority. Merger cannot therefore be seen as an automatic route to more efficiency or better services.

Gilmour (2013) cites CIH research by Davies *et al* (2006) noting: 'The researchers found community housing merger efficiency gains more modest than expected due to lack of geographical overlap, unwillingness to reduce staff numbers to the full extent possible and failure to set clear target savings.'

Mullins (2010, pp44-45) recounts a previous efficiency drive in the wake of the Gershon review of 2004. He writes: 'Group structures and mergers were a common organisational response to the efficiency agenda, initially resulting mainly in tax and borrowing savings, with limited evidence of organisational savings. However, gradually mergers and streamlining of groups generated clearer savings in central services and operational costs to meet tougher business case targets demanded by the Housing Corporation.'

Koolma, Hulst & van Montfort's (2013, p1) study of the rapid increase in size of Dutch HAs, mainly through mergers, found that 'the process of up-scaling does not lead to positive results'. Large organisations do not function more effectively or efficiently than smaller ones, they found. In fact, higher costs were found in larger organisations. Larger organisations did have strategic advantage when it came to building houses for sale. But small organisations performed better at 'human inter-relational activities' (*ibid*, p10). Van Bortel (2010, p366) finds that larger organisations improve compliance with corporate measures of performance. But they 'can find it harder to achieve very high levels of customer satisfaction unless they are able to compensate for the loss of personalised relationships and trust that smaller landlords can engender.'

In the private sector, KPMG (2006, 2008) produced reports on global merger and acquisition markets. It found that such activity does add shareholder value (the favoured improvement measure) in most cases. But the second of its reports cited above noted (p3) the first deterioration in performance, with deals that reduced value growing from 26% to 39% of the total.

A study of public sector mergers in European hospitals and universities (Pinheiro *et al*, 2015, p2) pointed to measurement of economic benefits as 'the promise of benefits that never come to pass'. Norway reduced its number of hospitals from 80 to 20 in a decade. Mergers did not necessarily have a positive effect in economies of scale, they report. This finding builds on Brekke *et al* (2014) who studied merged and non-merged hospitals in Norway. They found (p2) that while cost efficiency could increase, it did not always do so. And because of resulting closures, (p22) 'hospital mergers tend to be bad news for consumer welfare due higher travelling costs and, in most cases, lower quality'.

A possible reason for these effects is offered (*ibid*, p4). Where mergers result in local monopolies, it appears that the new organisation may not strive so hard to realise efficiencies. 'The merging hospitals always reduce cost-containment effort, whereas the non-merging hospital responds by increasing its cost-containment effort.'

The effect can be seen in studies of US hospitals (Tenn 2011, Vita and Sacher 2001, reported in Pinheiro). Here, the merged organisations' strategic influence and stronger bargaining power with health insurers resulted in increased prices.

Denmark forecasts significant savings from a restructuring that will close some larger hospitals, the researchers report. Pinheiro *et al* (*ibid*) point to the risk that some hospitals could become too large and complex, producing diseconomies of scale. UK studies were reported (*ibid*) to find no improvement in care quality and a worsened financial situation in hospitals that merged between 1997 and 2006. The authors suggest mergers of small hospitals gave the best results, and – echoing the CIH report on HAs – that there was an optimal (medium) size for hospitals, with costs tending to increase in the largest ones.

Stern (2010, p4) pointed to the presence of local competition as a factor in reducing costs/prices in the infrastructure industries such as gas, telecoms and electricity, and noted its relative absence from the water industry. He reported: 'Experience over the last 20 years in Britain and elsewhere has clearly demonstrated that upstream (ie, producer supply) competition is essential to support effective downstream (ie, retail) competition in infrastructure industries.'

Klien's (2005) review of literature on consolidation in European water industries found highly variable outcomes. Consolidation could lead to either higher or lower unit costs. He notes (*ibid*, p3): 'There are important economies of scale in the industry, which are, however, not unlimited. The evidence appears to be particularly strong in the case of small companies and medium sized companies, much less for large companies… economies of scale decrease with increasing utility size and eventually turn into diseconomies of scale.'

Klien (*ibid*) also raised questions as to the wider public interest in industry consolidation, as do some other authors. He considered the situation where an industry is dominated by a small number of players, to the detriment of competition. Here, government and regulators are attempting to introduce greater competition by chipping away elements of dominant firms such as BT and British Gas.

In construction, Archer & Cole (2014, pp102-103) found that the 'big five' housebuilders which accounted for a third of UK completions in 2012-13 increased their revenues by 40% between 2009 and 2012, but their output increased by only 24%. By focusing only on the most profitable sites, the authors note, the firms 'maximised value', selling at higher average prices against a backdrop of falling house prices. Howard (2014, p155) finds that the largest beer firms are increasingly able to exert power and move toward 'the endgame of a global monopoly' which he forecast would probably increase prices and decrease both quality and choice.

These issues are also raised by Gomes-Casseres (2016) in considering three proposed industrial mega-mergers in the US that were halted by regulators or the courts. One, a consolidation in oilfield services supply, would have reduced consumer choice and innovation, the Department of Justice ruled. A pharmaceuticals deal based on tax haven advantages was scuppered by the Treasury, and an office equipment deal fell in the courts because it did not show benefits to society. The author suggests that the last point is key: organisations must show wider benefit – and longer-term benefits may be hard to demonstrate because of the short term pain of mergers.

Factors for success in mergers and acquisitions

This section cannot include a full definition but offers some pointers from the literature cited.

A good starting point is the report on the crisis at Cosmopolitan Housing Group in 2012, only months after a merger and itself constituted as a complex group. It should be said that the merger was not itself the cause of the crisis; and in fact the situation was eventually resolved via an acquisition. But the unusual level of detail in the post-event report (Underwood *et al,* 2014) offers insights into the process.

The merger of CHG was with Chester and District Housing Trust, until then functioning independently and with 'a sophisticated and well-established resident involvement strategy'.

Underwood reports (p8) 'The merger appears to have been driven on both sides by the chief executives, with neither board initially appearing to be in control of the process.' The report also notes (p9) that: 'The business case for merger did not make an outstanding argument for the benefits of the merger for CDHT residents and service users.' The eventual rescuer was Sanctuary Group, one of the largest players in the industry.

The report makes a raft of recommendations, including on mergers. The first of these (*ibid*, p28) is a strong reminder to consider in whose interest a merger might be: 'It is the responsibility of the board to determine the strategic drivers for a merger, the appropriate criteria for partner selection, and the potential benefits for current and future customers.'

The sense that deals are not always properly thought through crops up continually in the literature. Better planning and upfront statement of goals could help organisations to make better decisions on whether to consider mergers.

Boateng *et al*'s (2016) study of the performance of charities identified five key measures of performance that can be useful in quantifying the outcomes of mergers: financial, client satisfaction, management effectiveness, stakeholder involvement, and benchmarking. The authors recommend (p70):

'Business-type performance measures such as profitability are not significantly associated with performance in charities. The managerial implication here is that senior managers of charitable organisations should employ not only financial indicators to measure performance, but also consider its key antecedents such as client satisfaction, management effectiveness, stakeholder involvement and benchmarking, which capture the non-financial dimensions of charity performance.'

Van Bortel *et al* (2010, p371) offer this:

- Larger, merged community housing providers are capable of producing more new homes and are better at partnering with other stakeholders than smaller housing providers
- Smaller community housing provides who have not merged are generally more effective at service delivery and involving tenants in the organisation
- Successful mergers require a good cultural fit between the two community housing organisations.

And if organisations do decide on merger, the aspiration can be different from the reality. Bridging that gap requires a continuation of the intense planning well beyond completion of the transaction. Social Finance (2009, p2) suggests four preconditions to a successful merger:

- Plan ahead and identify key risk issues early-on in the process
- Obtain upfront buy-in from management teams
- Bring together two sets of people and two working cultures
- Integrate systems and processes.

The question of cultural fit emerges as a key issue, and is raised in a number of papers, as seen above. Its significance is alluded to in the recent aborted merger of Genesis and TVHA (Genesis, 2016), whose boards cited 'differences in style and approach'. Almost half of Dutch HAs involved in aborted mergers cited culture differences (Van Bortel, *ibid*, p369). The importance of the problem appears borne out by KPMG's private sector acquisition surveys.

The firm reports (2008, p12) that cultural differences are cited by CEOs among the top challenges post-deal. They recommend: 'Rather than blaming cultural differences for problems experienced during post deal integration, organisations should pre-empt these issues… By identifying and analysing cultural variance upfront and proactively addressing potential hot spots early on, companies can begin to forge a workable, if not fully common, culture quickly post deal.'

KPMG also noted (2008, p4) that '80% of respondents believed they had exceeded post deal targets, yet deals are not delivering value. This suggests that operational targets post deal were different to those set in the original deal model.'

Can improvements be made without merger?

Veenstra *et al* (2016) analysed merged and non-merged HAs in the Netherlands. They found that most organisations were operating at less than optimal efficiency, and that merger did not strongly affect this. In fact, because of the diseconomies involved increasing scale, they believe merger would not be recommended in most cases.

Does this mean that organic growth (without merger) is preferable? Van Bortel *et al* (2010, p356) discuss partnerships and alliances on the continuum of options that includes full merger. Avoiding merger preserves the highest level of independence, they say, but the disadvantages of partnerships are: '[They] are difficult to control, resulting in high transaction costs and continuing instability (since partners may pull out at any time).' Gilmour (2013, p10) finds partnerships are low risk 'as existing power and control systems remain in place'.

Lupton and Kent-Smith (2012, p23) suggest that 'it is not the size of merger that enables cost savings, but how the organisation operates and changes as a consequence'. This shake-up factor is examined in Veenstra (*op cit*), who suggested that merger should in theory force organisations to examine and change their current practices. However, on analysis they found weak evidence to support this and concluded that merger should not be necessary to achieve such a shake-up.

Alternative approaches are discussed across the business literature. Pollitt & Steer for example (2012) use the concept of economies of scope to discuss alternative structures. They suggest that organisations providing specific types of product or service that have synergies with another can find economies of scope through partnering or contracting out arrangements, provided the transactional costs are not too great. This idea of considering activities rather than scale in appraising options and potential efficiencies was raised by Lupton and Davies (2005), reported in Van Bortel (2010, p357). The latter (p372) suggest this would allow consideration of added value for a wider range of stakeholders, and draw greater attention to independent alliances, joint ventures and so on as appropriate organisational forms.

Lupton and Kent-Smith (*op cit*, p26) suggest that the distraction and opportunity cost of merger, together with the ambiguity about its advantages, is leading some organisations to rationalise instead. Concentrating on core geographical areas and improving services to existing customers is reaping rewards for some, they suggest.

Partnership arrangements of various types are already found across the UK housing sector. Joint development, shared treasury functions, and group finance are among the examples (Van Bortel 2010, p360). Two further examples are given in Mullins *et al* (2013) of Supporting People partnerships, and procurement partnerships, with learning points on each. Gilmour (2013) discusses various types of alliance with examples from Australia and the UK. Mullins (2012) is especially useful in offering a history of merger activity, drivers, impacts and alternatives. He identifies four types of alternative structure currently seen in the UK HA sector:

- Preserving independence through collaboration
- Federal structures
- Groups as a staging post
- Integrated unitary organisations.

The CIH suggests non-developing HAs may begin trading surplus capacity with developing ones (2012, p31). The difficulty, as noted above, lies in appraising the potential benefits of merger or other alliance/partnerships in meaningful ways and in finding useful ways to measure them.

In summary

Mergers have the potential to deliver benefits in some circumstances. However, other options may be equally advantageous or better, depending on various factors. Issues such as better service quality, resident involvement or improved governance may be given less prominence than cost efficiency. Sometimes, anticipated financial efficiencies of merger are not realised and costs may even increase. A range of performance measures is needed to forecast any potential benefits and outcomes.

Given the range of possible motives for structural change, clarity and transparency become key issues. A related ‘cart before horse’ question may also arise: organisations’ starting point should be the challenges/problems they face, not the actual (and possibly opportunistic) question of whether to merge.

Important factors to success gleaned from several industries in considering merger or other approaches can be summed up as:

- Be clear about the reasons for a merger or other type of partnership and how it will aid the organisations’ priorities
- Analyse the drivers and options carefully: merger, rationalisation, organic growth with organisational changes
- Set out the reasons for selection of a particular partner and consider culture fit
- Set out in measurable ways how different stakeholders will benefit, over what timespan
- Anticipate the downsides – factor in the effects of cultural misalignment, local monopolies, optimal size, opportunity and transactional costs
- Plan early
- Ensure full disclosure from all parties
- Ensure the promised benefits are realised post-deal – and measure them.

Definitions

Merger: voluntary consolidation between organisations

Acquisition: where one organisation takes over the ownership of another

Types of merger:

- Horizontal merger – organisations with same products/services
- Vertical merger – organisations involved with different stages in the production process (could have a buyer/seller relationship)
- Market extension merger – extending the market, eg, geographical extending
- Product extension merger (concentric merger) – extending into new products/services (eg, HAs moving into private renting, leisure centres, etc)
- Conglomerate mergers – organisations that do very different things.

Acknowledgement: with thanks to Dr Tim Brown for his assistance on this section.

8 FORM FOLLOWS FUNCTION – KEY PRINCIPLES

Now we've heard from the key players on all sides of the debate, it's time to draw together some key principles on how to consider your organisational options.

"Supremely elegant but with a steely hint of aggression, the Bristol Fighter is a perfect example of the beauty that results when *form exactly follows function*."

You hear this phrase a lot in engineering. Why don't we apply it to housing?

It's time to turn the debate on its head. Our experts – residents and practitioners – have told us that values, culture and service are the starting points. So let's start by looking at what an association wants to do (its functions) before we get into how it does it (the form.) Surely that is the right way round. Staying on your own could be the right answer or merger might be better. It all depends on what you are trying to achieve.

We learnt from residents that in their view critical success factors include clarity and agreement on objectives, equity between partners, and the addition of value to existing arrangements. From our experts we learnt that culture fit, clarity of vision, focus on outcomes and sheer hard work are key ingredients. A bit of humility goes a long way too. And from the literature, a few further points:

- Set out in measurable ways how different stakeholders will benefit, over what timespan
- Anticipate the downsides and ensure full disclosure
- Ensure the promised benefits are realised post-deal – and measure them.

So, based on all of our research, on the following page are our six principles for organisational review:

FORM FOLLOWS FUNCTION – KEY PRINCIPLES

1. Start with your values
2. Be clear on the problem to be solved and where opportunities lie
3. Commit to involving residents and staff
4. Take decisions impartially
5. Demonstrate accountability
6. Plan ahead

1 Start with your values

Why do we think this is so important? We ran a big event for the Institute of Directors a while back. It was an eye opener. Now these people really are commercial. We heard some great war stories about turning round basket cases and sorting out mergers. That's as you would expect. But what struck us was this. They spoke with one voice. Whatever you do in business you must stick to your values. If the company's values are out of date, of course, you must change them. We could do with taking a leaf out of their book.

What sorts of questions should you ask about your values?

Are they up to date? Do they still make sense?

What actions flow from these values?

Can you afford to deliver on these?

Should you develop more realistic targets?

Could you do more if you linked up with others?

Can you make a big enough impact on your own?

What do your stakeholders think? Are you helping councils to meet need? Are you doing enough for the groups you want to house? Are services up to scratch? Do you build enough homes? And of the right sort?

Here are some of the debates on values that are going on in boardrooms:

We say we want to be *independent*, but what does that really mean? Are we just protecting ourselves? Or do we do things that are so special that we are the only people that can do this right here and right now?

We see that many associations still want to *deliver excellent services*. Is this just a hangover from the old days of inspection? What do we mean when we say excellence anyway these days? There is a lot less money around what with the rent cut, welfare reform and sales drying up. Can we use a more accurate word to describe our services today?

Of course associations want to *build as many homes as possible for their target audience*. But what is the best way of doing this? A specialist provider faces a dilemma. Does it stay on its own and act as a model developer for others to copy? A bit like a craft brewer, as it were. Or do they join up with a bigger association and build more homes directly? There's no easy answer to this one.

These are not sterile discussions. The way ahead that you pick will have a significant impact on the form of your association and the services it offers.

2 Be clear on the problem to be solved – and where the opportunities lie

"Your mind is working at its best when you're being paranoid. You explore every avenue and possibility of your situation at high speed and with total clarity."

Banksy

We're not saying they're all out to get you in housing. Far from it. But Banksy is right, you need to bring a sharp focus to looking at what you want to do. And there is a need to work quickly. That rent cut means some associations just cannot go on as they are. In many places associations must do a lot more to stem the housing crisis.

This is all about setting the exam question for your option review. You won't get the right answer if you start out with the wrong question.

"A one-degree error at the start of a project leads to a 180-degree error by the end of it."

Disgruntled CEO on receiving a botched option review

So what sorts of issues should you try to resolve? Obvious ones include:

- Delivering the correct level of services in the face of the rent cut and welfare reform (and whatever else comes down the track)
- Building more of the right sort of homes where they are actually required for the people who need them
- Boosting borrowing capacity
- Strengthening the balance sheet
- Procuring goods and services on better terms
- Increasing management capacity
- Bringing in innovative IT including the ability to shift channels
- Spreading risk by operating across housing markets
- Eliminating price competition for land between associations
- Accessing a high quality in-house repair service
- Creating the room to manoeuvre around future stresses
- Getting into new business areas.

Once you have worked out the questions what do you do next?

You should model your ability to do as much as you can on a stand- alone basis. And you can see the impact on things like viability and how many homes you can build based on a given level of savings that could flow from a merger. The HCA publishes better data on association costs now. So you can get an insight into what your costs could be on your own or if you link up. If you release the savings could you build more homes?

It all boils down to these big questions:

- Can you fix things on your own? Or
- Does it look like you should be exploring the case for merger?

Of course the answers will vary depending on circumstances. As ever there will be shades of grey. A looser alliance of some sort could be just the job for you.

3 Commit to involving residents and staff

Are we swimming against the tide here? It's a commercial world now. associations must put their business heads first and their social hearts last. Not so fast! Have you been listening to Theresa May?

"It will mean establishing the best corporate governance of any major economy, ensuring the voices of employees and consumers are properly represented in board deliberations…"

Theresa May PM – The new role for business in a fairer Britain – FT 21/11/2016

Things are changing. She thinks that consumers and employees can get a raw deal from companies. So she wants to find ways of giving them a voice at board level. Associations do have to tread very carefully here. There is not the same chasm between the top and the frontline as you see in Sports Direct or BHS. But there is a big gap. What do we do about it? You could say that now is the time to listen to tenants. It goes with the grain. We ran a survey and tenants told us that they do want a say on big decisions. And there is nothing to fear from this.

Yes, some do worry about getting lost in a big association. So they can start out by being sceptical about a merger. On the other hand others can see the good things like cost savings and more building that a merger might bring. Wisely, there are many 'don't knows'. How could it be otherwise? You need the facts to make a decision. And they are not on the table yet.

We think an association should:

- Set out clearly the pros and cons of merger and other options
- Identify the concerns of tenants
- Explain how these will be addressed
- Give measurable commitments on service delivery and building post-merger.

There are a few judgement calls to make:

- When do you consult? You can go too early and talk about a deal that unravels. Or you can start too late with a fait accompli
- Do you wait until after due diligence and other signs that the deal is on a sound footing?
- Can you give some tenants confidential information about a deal on the basis that they do not pass it on? This does go on and seems to work well
- Can you put a time limit on the process? How many deals are you looking at? Is there a risk of a neverendum?

Let's turn now to the staff. They need to be firing on all cylinders to make an association work well whether it stays on its own, joins a partnership or merges. At a time of change staff will be worrying about their futures. Of course there will be winners and losers in any new structure. The people that leave will take a lot of know-how with them. Staff that stay may not adapt to the new culture. And it can take a lot of time to put staff into their new roles. It isn't at all hard to make the case for merger on paper. But it's people you've got to convince. It might be worth talking to others that have managed this well.

4 Take decisions impartially

One day this will be easy. At the switch of a button a machine that thinks will process all the facts and churn out the right answer. We know that Google are beavering away in housing. But for now boards have to weigh things up and take difficult decisions on the right path to take when we hit a fork in the road. For better or worse we are a long way away from automated option reviews that no one can find fault with. Why does this matter? Whatever you choose to do you have to prove that you did it for the right reasons.

If you stand alone some will question your ambition. Have you taken the easy way out? But if you do choose to merge people will be on red alert looking out for pay-offs and needless executive posts. And a word to the wise. A biased review sticks out like a sore thumb. Are you doing an independent review that weighs things up? Or did the CEO just dictate it. If so, that's hardly proof positive of G1 status is it?

This is where our Form Follows Function approach comes into its own. Decisions must be based on:

- How far an option meets your objectives (Is it in line with your values? Does it answer your exam question?)
- Facts about current solvency, capacity and performance
- Reasonable future projections about savings, levels of building and improvements tested for stresses
- Thorough cost/benefit analysis including all cost of transition, eg, fees and restructuring.

Ensure that you consider all options thoroughly.

- Identify risks and benefits accurately: our literature review found evidence that a large proportion of mergers and acquisitions across a number of industries fail to deliver expected efficiency gains. Cultural mismatch emerged as a key issue, often not anticipated or actively planned for. Partnerships preserve control systems but may carry transaction costs and be vulnerable to partners pulling out. It's important to consider the question of added value across a range of stakeholders

- Avoid over-optimistic modelling: *"We have a good future on our own,"* association chair spurning merger – *"They've no chance, they need to be taken over,"* Director of the jilted association
- Use realistic assumptions – not just those that make the plan work
- Stress test the resilience of the future modelling
- Make the most of due diligence: *"Due diligence is the best bit of merger discussions. We attack their business plan. And they attack ours. What a test it is. They spot things we didn't see and vice versa,"* association director who has negotiated a number of mergers
- Anticipate reputational damage – be alive to accusations of unjustified pay offs and wage hikes in mergers or complacency if you stay as you are
- Take the right advice and act on it: Everyone uses advisors on these studies – it's seen as one way of ensuring the work is impartial. But you must put checks in place. You don't want anyone to say they are dancing to the tune of the CEO or leaning towards the most expensive-to-implement option.

5 Demonstrate accountability

"This is the bit we need to get better at in truth."

CEO of large merged association

You will need to evaluate whether the option you chose lived up to the promises you made. So whether you merge, go into partnership or stand alone:

- Set tangible measures of success
- Report on these transparently

And if you have fallen short, explain why and what you will do to put things right.

6 Plan ahead

"Life is what happens to you while you're busy making other plans."

John Lennon

Whether you merge, form a strategic partnership, share functions or stand-alone, money is the big deal. You need to get the cash in and make savings. If you let teething problems stand in the way you won't make good on your promises.

It's the job of leaders to get deals across the line. That doesn't always happen. When a merger proposal fails a lot of money spent on fees goes down the drain. In effect your residents pay the fine. So you've got to pull out all the stops to make sure you take the right decision and push it through.

Of course mergers can and do work well. But here are some of the things that can get in the way. Here's a checklist of issues that can derail a merger:

- Do the cultures fit? You do get very different types of associations these days. Some only want to work in particular places. Others are set up as mutuals. And of course you do get some that see themselves as more commercial. Are you sure that you are bringing together two outfits that can be compatible? Or is it doomed to failure from the start?
- Can you make the savings? You may have senior people on big money with generous severance terms. It's not the sort of deal you would sign up to today. What do you do if the new organisation doesn't need them? It can cost a

king's ransom to pay them off. Don't stumble into this trap at the last minute before a merger. It's never too early to look at their terms and re-negotiate. You know how the media use these cases to paint us all in a bad light

- Do the two sides trust each other? These types of negotiation are not going to be plain sailing. So there does need to be a commitment to openness. And while the two teams don't need to like each other – there must be respect
- Will the funders sign up to the deal? And at what cost? You do need to talk to them early to find out what their concerns might be. It may be that you will need expert advice to strike the best deal.
- What about the pensions? Associations do need to set aside a lot of money to pay for these. What impact could a merger have? Could it trigger a payment to a pension fund? Once again the key to this is talking to them early and getting good advice
- Can you keep all the stakeholders on board? If you want to merge with a stock transfer association the council may want to know about the impact on the area. It could have a so-called golden share. Will you keep the jobs and the offices? Will you let homes to people the council puts forward? The government is taking steps to reduce the sway of councils . But this will not stop them asking these sorts of questions. And you could have other shareholders too. What are their concerns? How do you address these?
- Are you ready for the regulator's visit? They will want to come in soon after the merger. Is it working out as planned? Or are you hitting teething problems? We've seen:
    - problems closing the accounts because all the senior staff from one of the associations left so no one had a grip on the numbers, and
    - backlogs on gas safety due to stuttering IT systems
- It can be hard work to bring two associations together. And the benefits you want to see do not appear by magic.

"The basic problem in closing the accounts was that all the experienced finance staff from one of the merged associations had left. We really struggled to piece it all together."

Interim manager

"Don't give me that rubbish about culture. It's nonsense. We spent lots of time with them at strategy days and seemed to get on. They just didn't want to do it."

CEO after a failed merger

And, just as John Lennon says, no matter how good your planning is you will hit problems you never imagined. How many of us saw the rent cut coming? What will be the next thing?

"That which does not kill us makes us stronger."

Friedrich Nietzsche

9 APPENDICES

Appendix 1: Choosing the right legal structure

Anthony Collins offers a series of tables that match the format to the problem you are trying to solve. And, to help you plan, they add a very useful timeline for going through all the stages of a merger.

Table of options

EXTENT OF BUSINESS CHANGE	LEGAL OR BUSINESS METHOD
Continued implementation of strategy	Incremental business improvement
Growth in/withdrawal from specific services or areas	Internal change implementation plan
Realignment of business to revised strategy	Restructuring services, assets and staff
Delivery of new and discrete business objectives	Contracting, sub-contracting admissions and JVs
Pooling services and/or growing capacity for delivery	Collaboration and consortium arrangements, cost sharing and JVs
Growing critical mass, range of services or capacity	Group structure, admissions and JVs
Overall growth strategy and/or corporate entity rationalisation	Mergers and acquisitions

Merger timeline

On the next few pages, we set out an indicative timeline for a merger between RPs. This is split into three stages:-

- Stage 1: Outline Business Case: initial approach through to in principle decision
- Stage 2: Full Business Case: due diligence, stakeholder engagement and business case development
- Stage 3: Go Live: implementation, consents and assimilation

We would usually expect the full merger process to take between 12 -18 months, although it can be undertaken on shorter (or longer) timescales than this.

Every merger is different, so it may be that one stage takes longer, or you decide to take certain steps at an earlier or later stage. For example, if you are concerned about obtaining consents from local authorities, shareholders or funders then you should bring these steps forward.

The process below assumes that:

- Consent from funders is generally by consent letter and a refinancing exercise/pooling of funding is not required or undertaken. In some cases, funders may require existing borrowing terms to be updated to bring them "up to market".
- The merger is largely one of "equals" rather than a "take-over" or rescue.
- The due diligence process is undertaken in one stage – an alternative approach is to split the exercise into two stages: the first to identify "deal breakers" (prior to outline business case ("OBC")); and the second to complete the usual "full" due diligence exercise (following OBC).

STAGE 1: OUTLINE BUSINESS CASE

1. INITIAL APPROACH

- Assess alignment with values and purpose
- No prescribed form for information but should include:
  - “deal breakers”
  - preferences
  - business objectives & plans
- Initial discussions with “merger committee”
- Merger committee determines whether to take to Board or reject
- Consider joint Board/committee meeting with merger partner

2. HEADS OF TERMS

- Boards agree to enter into formal discussions
- Delegations to joint working group (“JWG”) (membership & terms of reference)
- Decide external appointments & consider whether bids will be obtained:
  - external or internal project manager
  - lawyers – **joint instruction** or separate
  - treasury, tax and HR advisors
- Negotiate **Heads of Terms** and Standstill Agreement

3. OPTIONS APPRAISAL

- Agree timetable and project plan
- Agree internal and external communication strategy plan
- Initial discussions on outline business case (“OBC”)
- Enter into **Standstill Agreement**
- JWG to obtain advice on **structure options** taking into account:
  - constraints in funding documents and Transfer Agreements (if applicable)
  - initial stakeholder views
  - regulatory considerations
- JWG agree recommendation for Boards regarding structure of merger
- Obtain HR and pensions advice on employee arrangements post-merger

4. OBC DEVELOPMENT

- JWG formulates OBC to include:
  - How you can achieve your purpose together
  - How it helps you to achieve your business plan and objectives
  - Gains for stakeholders
  - Savings
  - Proposed structure
  - Costs of merger
  - Summary of process to be undertaken including assimilation
- Initial work on integration of business streams and functions to inform OBC
- Initial treasury advice on funder’s consent requirements
- Begin informal discussions with funders and HCA notification [1]

5. OBC APPROVAL

- Boards approve OBC and enter into Stage 2
- Consider parameters for due diligence exercise
- Agree informal approach to employees, tenant scrutiny panel and external stakeholders
- Begin formulating stakeholder consultation documents
- Agree approach to external publicity

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Notes:

Structure options

- New parent
- Join under existing parent
- Full amalgamation or business transfers

A standstill agreement typically covers

- Exclusivity
- Confidentiality
- Disclosure and consent requirements
- Costs
- Publicity
- Heads of Terms
- Terms of Reference for JWG

Heads of terms typically cover

- Proposed outcomes and objectives
- Consents required
- Governance transition (who will sit on the JWG)
- Governance changes
- Proposals for senior executive recruitment and transition
- Key dates
- Costs and expenses (50/50 split or other)
- Consultant details

Instructing solicitors

- It is common to appoint one firm to undertake the group structure work on the basis that commercial teams are agreed in the Heads of Terms
- Due diligence should be undertaken by separate firms (although the "Group" lawyers could act for one party to keep costs down)
- Your lawyers will work closely with your consultants – you should agree who will issue instructions to avoid duplication
- Consider the extent you can streamline advice required to reduce costs (for example, greater clarity over the roles of lead lawyers and consultants on key business areas such as funding and employment)
- Keep all external advisors up to date on progress

Footnote

1. The Housing and Planning Act 2016 removes the requirement for RPs to obtain consent to merger or enter into a group structure. The Regulator has indicated that this will be replaced by a notification requirement in the Regulatory Framework. RPs should liaise with their Regulatory Manager at an early stage and throughout the discussions.

STAGE 2: FULL BUSINESS CASE

1. SCOPING AND EMPLOYEE ARRANGEMENTS

- Meet with all advisors to discuss due diligence scope and timetable
- Agree appointment process for Board(s), Chief Executive and Executive posts
- Begin recruitment process for Chair(s)
- Devise and agree formal approach to:
  - funders
  - local authority (if consent required under Transfer Agreement)
  - tenant consultation
- Agree internal leads for the above

2. DUE DILIGENCE AND CONSULTATION

- Information requests submitted and fulfilled
- Ensure internal teams have resources to meet timescales for uploading documents
- Longstop date for documents to be set and complied with
- Further information requests submitted and fulfilled
- Draft reports issued to JWG
- Initial meetings with staff – ensure message is consistent and as much information as possible is provided around staffing arrangements
- **Tenant consultation** begins
- Initial formal meetings with funders and local authorities

3. APPROVAL OF DUE DILIGENCE, CONSULTATION DRAFTING AND FULL BUSINESS CASE (“FBC”)

- Board and JWG consider due diligence reports and sign off due diligence exercise
- Review outcomes from stakeholder consultation and discussions
- Agree implementation plan for any areas to be resolved
- Undertake further work around integration plans and savings
- Formulation of FBC including assessment of whether OBC objectives can be met or exceeded

4. FBC APPROVAL

- FBC agreed and approved
- Formal approval of implementation plan and group structure (including Board structures)
- Approve appointments of Board and Chief Executive

Notes:

Due diligence tips

- Points of contact for each organisation to be agreed - ownership is vital to the success of the exercise
- Jointly agree data room usage and communicate log-in details to all advisors
- Set a longstop date for initial information and communicate deadlines for committee and board meetings, ensuring this fits with resources available internally
- Allow time for additional questions
- Input outcomes into implementation plan
- Consider whether specialist advisors are required (for example, for areas the board is not familiar with eg care and support)

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- Inform advisors of any particular areas of concern and post-merger objectives so that the due diligence exercise can identify issues with achieving these

Tenant consultation

- Tenant Engagement Standard requires RPs to undertake a consultation exercise with tenants for anything affecting the management of their homes. This does not need to be a ballot although some RPs may opt to do so.
- The Regulator expects tenant consultation to be meaningful, as a minimum it should:
  - include various methods of obtaining feedback for example drop-in sessions, newsletter announcement, telephone discussions and mail drops
  - last 6-8 weeks
  - contribute to the merger discussions
  - any concerns raised should be addressed or taken into account in FBC
- An FAQ document can help to address typical concerns regarding rent and services.

STAGE 3: GO LIVE

1. IMPLEMENTATION AND CONSENTS

- Draft constitutional amendments and Intragroup Agreement (plus other new governance documentation)
- To be reviewed by JWG and approved by the Boards
- Send to funders and finalise their Heads of Terms
- Consider diversified group structure (for example, do any other entities need to be "moved", repurposed or formed)
- Negotiate legal documentation with funders and local authorities
- Obtain other consents required as identified in due diligence e.g. Charity Commission and CQC
- Undertake formal staff consultation (if required)
- Issue notices for general meeting/undertaking an amalgamation or transfer of engagements, consider notification of contractors and novation of contracts

2. INTEGRATION, RECRUITMENT AND ASSIMILATION

- Recruit remaining Board Members
- Establish process for recruitment of Executive Team members
- Establish pattern of shadow Board and new Board meetings
- Devise integration plan for teams and agree timetable for assimilation of employee arrangements post-merger

3. FORMAL APPROVALS

- General meetings to approve constitutional changes (or, if transfer of engagements / amalgamation, pass resolutions required by legislation)
- Funder's consent to be approved by the Board and completed
- All other consents to be received

4. COMPLETION AND REGISTRATION

- Notify HCA
- Register at FCA / Companies House / Charity Commission as required
- Complete any business, assets and staff transfers

5. GO LIVE AND INTEGRATION

- Comply with any conditions subsequent in funder's consent letter
- Notify tenants of change of landlord (if applicable)
- Integration / assimilation of business streams and functions
- Address action points from due diligence post-merger
- Registration at HMLR/FCA as required
- Measure outcomes against objectives and report back to stakeholders

Appendix 2: Is merger right for you? – A ready-reckoner

A big part of the job for associations is about building new homes. There is a housing crisis after all. What can you do to help?

It's easy to work out how many more homes you could build if you went into a merger. Or is it? The HCA publishes the cost-per-home for every association. Can we use that as a ready-reckoner to work out the savings that can flow from a merger? And then see how many homes you could build with the cash? (Beware though: events and obstacles can get in the way of what works on paper.)

Here is one example:

We can take two stock transfer associations that are close to each other.

Each has around 5,000 homes as things stand.

A – has a cost per unit (CPU) of £3,600 according to the HCA.

B – the CPU is £2,700.

Let us say that you bring A and B together and take costs down to the median level across them.

That would save around £2m per year.

How many extra homes could you build if you did that?

Here are our key assumptions:

- Interest rate on loans = 6%
- Period of financing = 35 years
- Average cost of land and building per home = £190k.

On that basis, the number of extra new homes you could build is 150.

These would be let at £115 per week and run at the new lower CPU so you get another 32 homes out of this.

Well that's how it looks on paper. But you don't build houses on paper.

You would have to make the savings. And that isn't always easy.

"We promised a new HQ in every town to get the merger through."

Chair of association

Plus, you would need to be able to raise the cash? Does it fit with your covenants? Do you have enough homes to pledge as security?

Does one of the associations have to spend a lot of money on existing homes never mind building more of them? In this example, A spends twice as much on major repairs than B each year.

On top of that the leaders would need to get the deal over the line – too many mergers see the costs of the divorce lawyers before the actual marriage.

And then there's the killer question. Could you make the savings without doing a merger?

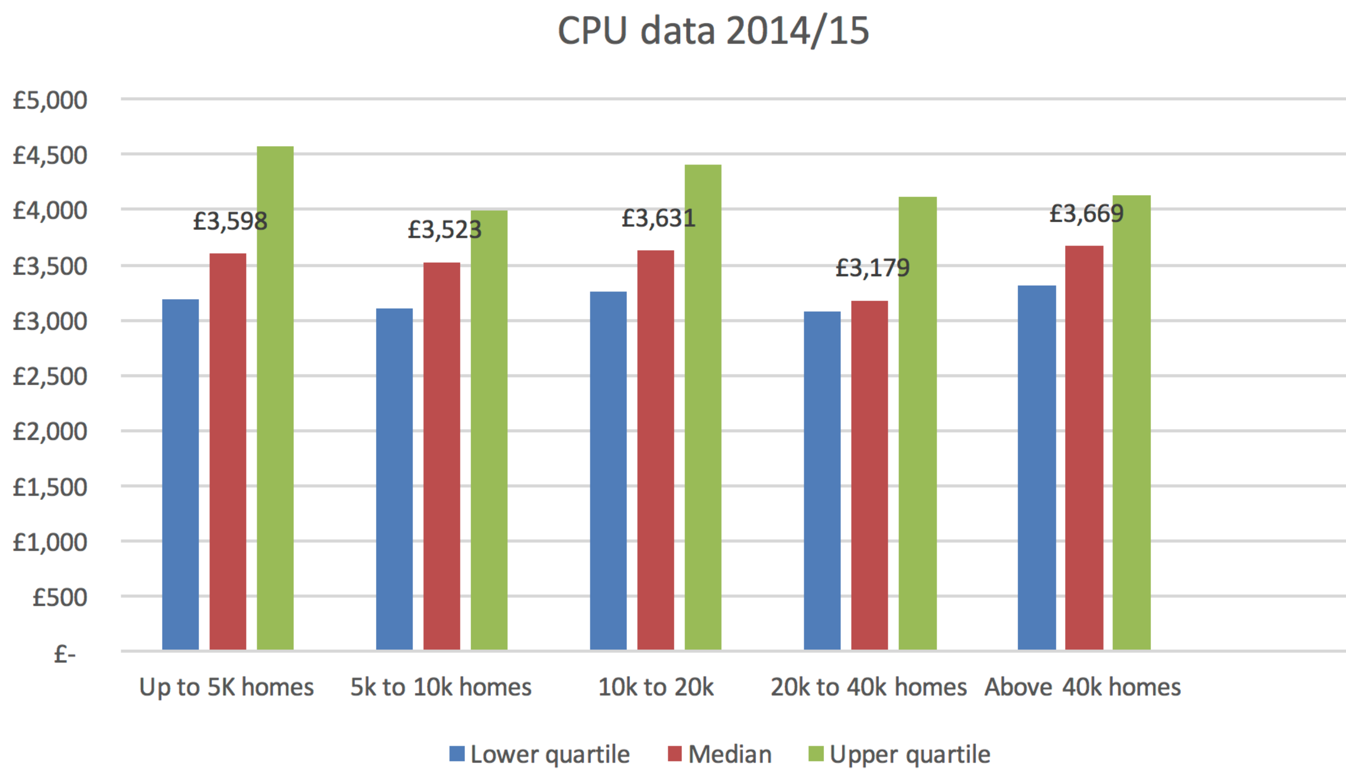
For many years the Audit Commission used to ask what would happen if the costs of all providers dropped to the median. Here the answer is clear. Nearly 200 more people would get a good home at a fair rent. Now that is a prize worth having whether you choose to merge or not.

A full list of the factors that can get in the way of a merger are set out on page 9 of the Form Follows Function toolkit.

Our figures are derived from a model prepared by Ian Parker – it is available from the Housing Finance Network (please contact michael.foster@hqnetwork.co.uk for more information).

You can insert your own figures to begin to look at the pros and cons of a merger.

Appendix 3: Small is beautiful? Tables looking at the relationship between size and cost using HCA data



Bands	CPU Lower quartile	CPU Median	CPU Upper quartile
Up to 5K homes	£3,182	£3,598	£4,570
5k to 10k homes	£3,102	£3,523	£3,990
10k to 20k	£3,261	£3,631	£4,406
20k to 40k homes	£3,072	£3,179	£4,122
Above 40k homes	£3,319	£3,669	£4,132
Source: Ian Parker/HCA			

Appendix 4: List of contributors and acknowledgements

HQN would like to thank the following individuals for contributing their time, knowledge and expertise to the writing of this report:

Ian Ankers

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Gordon Laurie

Catherine Little

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Community Housing Group

Wyre Forest Community Housing

Futures Homescape

Great Places Housing Group

Midland Heart

Weaver Vale Housing Trust

York Housing Association

Accent Group

Circle Group

Yarlington Housing Group

Peaks and Plains

Stonewater

Cobalt Housing

North Star Housing Group

Stevenage Borough Council

Affinity Sutton

Keniston Housing Association

Waterloo Housing Group

Ongo

Westminster City Council

Magna Housing

Alliance Homes

Wakefield and District Housing

Coast and Country

Genesis

West Kent Housing Association

Broadacres Housing Association

Suffolk Housing

Estuary Housing

Housing and Care 21

Women's Pioneer Housing

L&Q

Riverside

Saxon Weald

Sovereign Housing Association

Viridian

Chelmer Housing Partnership

Community Gateway Association

Progress Housing Group

New Fylde Housing

Bedford Pilgrims Housing Association

Fortis Living

Raven Housing Trust

Shal Housing

Parkway Green Housing Trust

Arches Housing Association

City West Homes

South Liverpool Homes

Newport City Homes

Pobl Group

Bolton at Home

Byker Community Trust

Croydon Churches Housing Association

Freebridge Community Housing

Havebury Housing Partnership

Herefordshire Housing

Red Kite Community Housing

Sanctuary Group

Salix Homes

Soha Housing

South Yorkshire Housing Association

St Vincent's Housing Association

Thames Valley Housing Association

Tpas

Tpas (Scotland)

Tenant Information Service

Confederation of Co-operative Housing

Torus

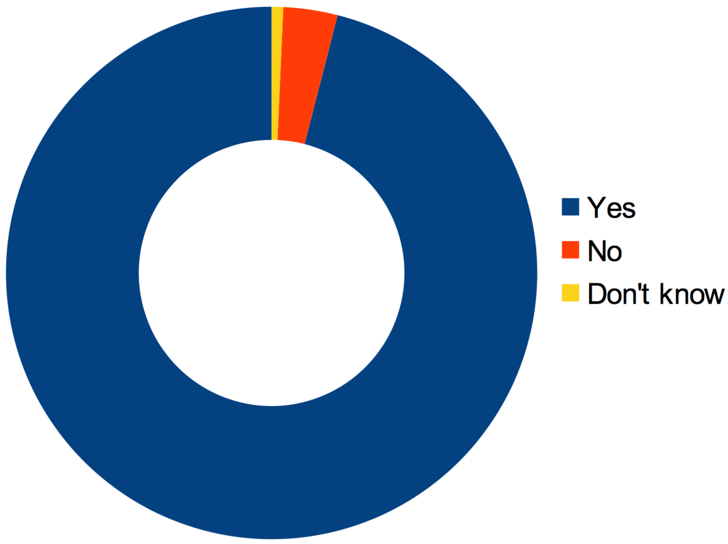
Wheatley Group

Wythenshawe Community Housing Group

Magenta Living

Appendix 5: HQN residents' survey – detailed results

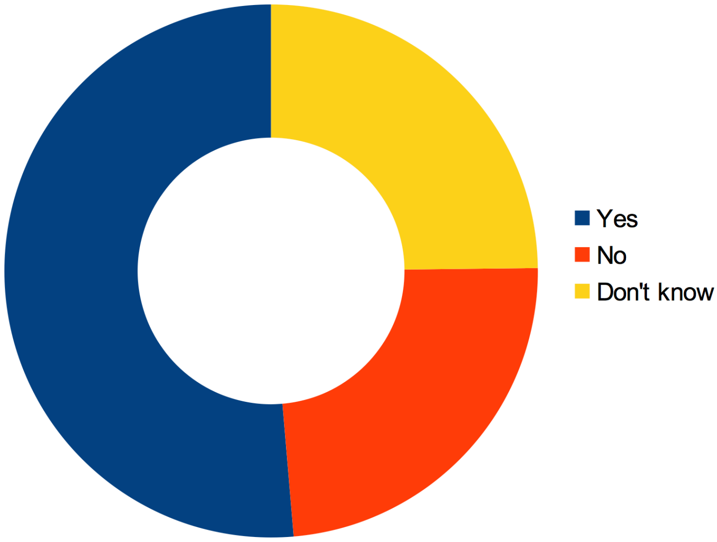
Almost everyone agrees resident input is important



Should residents be consulted on major structural change within housing associations?

One clear theme that emerged throughout the survey was that while residents almost universally agreed that they should be involved in key decisions affecting the structure of their housing provider, there was no clear consensus on what this should look like. Usefully, many examples were put forward on what shape resident input should take, as we will see later.

Trust issues



Do you trust the chief executive and board of your housing association to act in the best interests of residents?

In what could be seen as a slightly disappointing statistic, just over a half of residents trust their organisation's leadership to act in their best interests. Individual issues do come up in some of the more specific responses later, and perhaps there is some comfort for landlords to take from the fact that only 24% of respondents made it clear they didn't trust them.

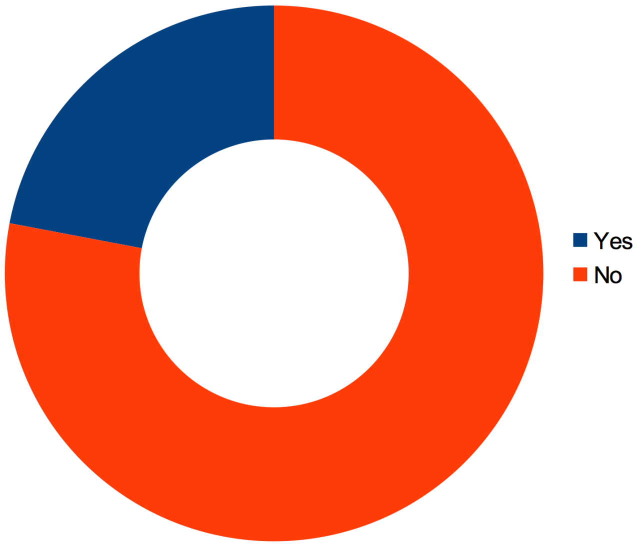
For some respondents whose landlord had been through a merger, this lack of trust appeared to go hand-in-hand with their feelings of being 'lost' when the organisation felt less personal to them:

"That we become lost. We used to be able to ring the local office if we had any issues – repairs, rent, anything relating to our tenancies and our properties. We now have to ring a call centre. The staff are friendly but do not know us, the area, our particular properties, so often messages get mixed up and cause some issues. If it became a bigger organisation I dread to think what would happen then."

For others, there is a sense that more commercially-focused operations take precedence over resident input:

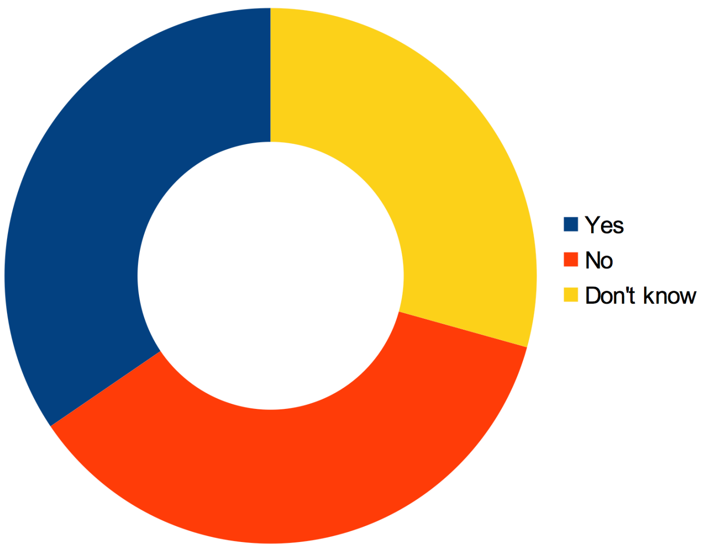
"Doesn't matter what residents think so long as a bigger profit is made for less input."

Speaking from experience



Do you have any personal experience of a housing association merger?

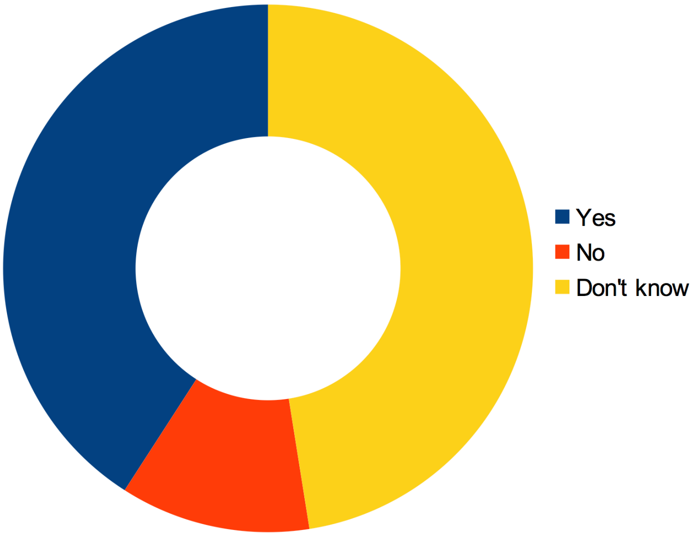
A little over a fifth of respondents had direct experience of housing association mergers and their opinions on whether they had been successful seemed somewhat mixed:



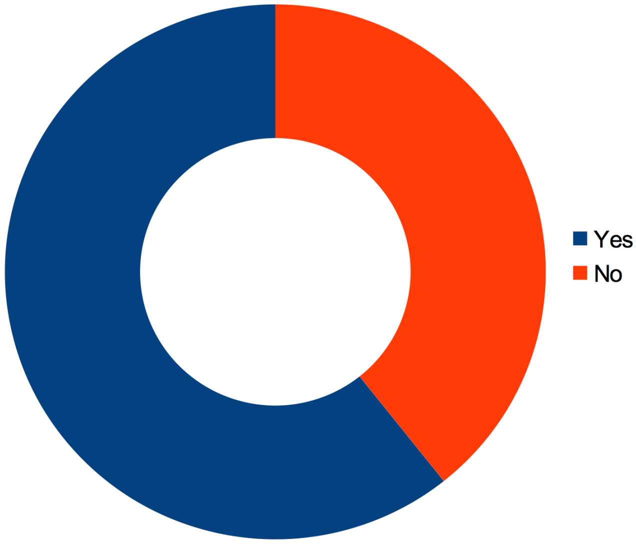
Did the merger deliver on its promises?

Going it alone

Is your housing association better off on its own?



Many residents did not know whether their housing association would be better off on its own. While at first glance this seems like a difficult piece of data to get a handle on, this is probably a healthy response. At a little over 40%, many respondents thought their landlords are fine just as they are with a minority of residents – just over 11% - thinking they'd be better off through some form of strategic alliance or merger with another organisation.



Do you understand the benefits of a housing association being part of a larger group?

Just over 60% of respondents felt that they understood the benefits of a housing association being part of a larger group. This was backed up by the more detailed responses later in the survey. For example, residents could see that larger organisations could make cost-savings by reducing the numbers of staff that they employed.

There was a broad acceptance that sharing access to repairs and maintenance services could also save money, although some responses showed concerns about these services being more remote and less personal.

Many respondents were also keenly aware of the need to build more homes – not just at a community level, but with an eye on the government's housebuilding targets more generally.

Accentuate the positives

The respondents were asked: ***"Thinking about the current developments in the social housing sector, what positives do you think could result?"***

The briefing document that accompanied the survey listed some specific current developments that respondents were asked to consider. These included thinking about mergers and partnership working as well as registered providers acting more commercially, building homes for market sale or rent in addition to affordable homes. These were considered alongside wider issues, particularly around the government-set 1% rent cut for social landlords and ambitious plans to build more homes.

Many respondents saw the possibilities to make savings and to build more homes:

"Mergers might give more access to capital to build more housing. Ability to cut administration costs."

"Building more affordable homes is a must. Looking at the different departments and consulting with tenants on how they can become more cost effective never hurt anyone."

"One good result would be the provision of more affordable housing to allow young people to get on the property ladder. A positive for smaller housing associations would be that they'd have more resources to draw on if they merged with a local large housing authority."

Some comments were moderated with a degree of scepticism about whether these positives could actually be achieved:

"Hopefully, at least, initially the opportunity to build more family places to rent for those denied purchasing due to lack of financing, especially deposits. (Whether this would be realised is anybody's guess)."

Some of the analyses were a little more in-depth, providing possible solutions to some of the challenges posed by policy changes:

"The impact of [the] enforced drop in rental income and Right to Buy for housing associations [means that] to survive and meet recognised benchmarks, they will have to keep fine-tuning: the management of their existing assets; the efficient pooling of resources with local and associated organisations for mutual benefit; meticulous budgeting with realigning priorities based on pro-active data processing and reliable data forecasts."

Some saw the benefits of associations coming together, but felt that government policies may work against more positive outcomes:

"Mergers can mean housing associations are financially better able to cope and potentially able to get houses built and reduce the cost of repairs by being able to employ the repairmen, builders, etc, directly so not needing to contribute to another firm's profit to get the job done and be able to purchase materials in bulk. Government policies as regards the housing association sector have no positives- they are clearly out to destroy social housing."

"No positives at this moment in time. The government is discouraging social housing when there is clearly a need. Many younger people will never earn enough to qualify for a mortgage and will have to rent from private landlords some of which leave a lot to be desired. Outcome – homelessness."

Many answers, despite the question being about positive outcomes, were largely pessimistic:

"Rent will be a little cheaper, but undoubtedly the shortfall at the housing association will be recouped from the tenant by some other means. Increased service charges, etc."

"No positives – it will result in a more remote knowledge of the culture and needs of a locality."

"I'm not sure there is anything positive for residents, it all seems to be about saving money, that never leads to better service."

A good number of responses to this question were variants on 'none'.

For some residents, the positive outcomes focused specifically on where they thought savings could be made:

"Fewer executives on high salaries."

"They will cut back on freebies and jollies for staff."

"Transparency would be good as would of course lower rents. Fewer managers would be needed in a merger so money could be saved."

Eliminate the negatives

Residents were asked: ***"Thinking about current developments in the sector, what are your main concerns?"***

A number of respondents were particularly concerned about the perceived reluctance/inability of registered providers to build homes for particular groups of people:

"No-one is really thinking about the disabled and elderly, buildings that are being built are totally inadequate for the needs."

"There is a grave concern that with new policies from government, the needy, those not able to afford 80% - 100% market rents will have nowhere to live."

"Not enough homes for rent for people having to pay bedroom tax. Under-35s being penalised. Rent reductions."

Many respondents shared concerns that larger associations were less easy to communicate with and might not be as responsive to local needs:

"Big is not always beautiful. The push for mergers won't necessarily deliver improvements for tenants [and] it could make their landlord more remote. Stock rationalisation and investment in neighbourhoods as a whole rather than landlord-based decisions would deliver improved outcomes for tenants."

"Lack of understanding of tenants' needs, poorer communication."

"Changes to the way one company worked before a merger. Not knowing who to contact."

"Loss of community, Sometimes the bigger an organisation gets the more detached they get from their clients. What might be good in one area is not necessarily going to be good in another."

A number of respondents were concerned about the risk of a loss of social purpose – from both government policy and from providers merging and diluting their values:

"That the board and senior managers put their focus on new build and development and forget their responsibility towards residents living in deteriorating properties and communities."

"Selling social housing is totally wrong. The 1% decrease is not the end of the world being that property prices rise on average of 8% or more. Associations are making a meal about this in my view."

"That the values of smaller but efficient HAs would be lost in a merger that does not fit. For example, if it was to merge with a large HA that didn't value resident involvement, the smaller HA would be lost along with its principles and values!"

"Associations become indistinguishable from commercial house builders. Communities suffer as housing is sold off to those most able to pay, leaving residents pushed out of their local area. Although more units are built few are for affordable rent. Not everyone has access to a mortgage."

For many respondents, concerns centred around the services that landlords provide. There were a number of concerns that repairs and maintenance services might be affected if 'efficiency savings' went too far. A number of respondents thought that even where rents were reduced as a result of the 1% cut, their landlords would seek to recoup this money through increased service charges or similar measures.

Many respondents thought that current housing policy represented an 'attack' on social housing, and some feedback mentioned that it was now time to 'grant' housing associations and other providers more investment to build homes for rents that people can afford.

A number of responses expressed concerns about cost-cutting – extending this to resident involvement and the exclusion of the views of tenants:

"That associations may make savings by cutting back on resident involvement."

"The main concern is that housing associations may decide to merge with another housing provider without getting the support of its residents."

"I am mainly concerned that the people who finance the organisation can be completely ignored on very major changes to their landlord and the decision would be made by a board of 12, only four of whom are tenants. These changes could affect us for many years and for some for the rest of their lives."

Allocating priorities

Respondents were asked: ***"If your landlord came to you tomorrow and said they were considering changing their structure, what do you think is most important for them to consider?"***

Many replies made it clear that taking on board the views of residents, and maintaining good communications in order to do so, should be a top priority:

"Tenants need to feel their home is secure and safe, affordable and maintained, and landlord is approachable."

"Views of residents to be taken into consideration. Transparency at every stage. Maintain a good housing stock and services. How will it affect staff, services, residents."

"A stronger body of resident involvement (a committee of at least ten residents who can press for greater access to board decisions and information) to challenge and hold the board to account and a website to capture residents views, which is accessible to that body and not just the board."

"To maintain the original purpose which led to [the housing association's] foundation and to find an effective way to project this into the future. DO NOT give up essential necessities for this purpose and do not implement policies which counteract the effective engagement of the tenants."

This comment summarises much of the sentiment expressed about making sure residents are 'kept in the loop' when it comes to mergers and other changes. Making the impact of the changes clear and understandable, as well as easily accessible to residents, was a recurring theme:

"An important consideration would be to provide all tenants with understandable information about the benefits of such a structural change [and why it's] relevant to the specific housing association. This is important [so] the client can buy into the reasons 'why' and predicted benefits resulting, which will minimise anxieties."

In some cases, there was concern that good members of staff did not lose their jobs:

"They should make sure that no staff are lost or upset, especially the good ones."

"Keeping good staff, listening to the residents."

Some responses took a slightly different form, including very personal pleas from residents to landlords:

"[Remember] that these are your tenants' HOMES. This is where people spend their lives. Have families. Make memories. It's not just a number on a spreadsheet. Your decisions change lives. If you decide to scrap a potential park in the local area, that young working mum may not have time to walk to the next one when she has half an hour free time with her children outside of work, dinner, bath and bed!! ... It's simple. We LIVE here, it's not a balance sheet, it's not a repairs cost, it's not a list of repairs needed. These are our homes."

Other responses were often short and to the point:

"Sack the lot of them and start again from scratch."

Bricks and benefits

The survey asked: ***"What should be the key benefits when deciding whether to go ahead with a major restructure?"***

The responses to this question were some of the most varied that the survey gathered but the majority could be boiled down to the following:

"Keeping tenants happy."

There were various approaches to how this happiness could be achieved. For some, the focus was on customer service; for others, maintaining strong resident involvement.

For some respondents, the perceived savings generated by any structural changes should be shared between the housing provider and the residents who are both the reason the organisation exists, and its primary source of income:

"Efficiency measures which would benefit both the organisations and the service users."

"In my experience, residents [tenants] get a poor deal. They do provide a huge chunk of the available money for a housing association, and we see them getting reduced repair services and other provision."

"Efficiencies which can enhance the local offer to tenants."

Respondents were also very aware that the majority of mergers are financially driven but questioned the tangible benefits both to the landlord and the residents:

"Not sure if it is a good idea. Getting bigger means less flexibility and not usually more efficient [or] cost effective."

"It should be to make things better – if the company is financially struggling then that's a different matter. The company's commitment to fulfil its repayment on loans needs to be closely monitored – the business plans and the promises that go with the merger need to be looked at closely."

Although the survey's respondents did not always agree with current government policy or even with each other on the type of tenure, many identified one of the key benefits of mergers as a capacity to build more affordable homes in their communities:

"To empower staff and residents, so they feel involved in major decision making. Key benefits should be an ability to build extra affordable homes."

"More efficient working, lower overall costs, creating more affordable homes, helping young people to get a home and the elderly to downsize without financial penalty and costs. Moving is expensive the elderly cannot afford to redecorate or buy new stuff."

"More investment in more social housing to rent and buy."

"Decent affordable long-term homes in a range of tenures (social rented, shared ownership, affordable low cost to buy, market rates) partly paid for by reduction of unnecessary staff overheads and partly by using new private tenures to pay for new social ones. Some more imaginative, intelligent providers could also offer tenants clusters of housing to manage themselves as co-ops, but I'm not holding my breath waiting for that one."

"Cost savings – which will enable new housing to be built and the maintenance of homes to continue. Ensure that social housing is not lost but is part of several strands of housing such as starter homes or part rent/part buy."

Some respondents insisted that not all mergers resulted in benefits and that maintaining standards of service provision should be a top priority:

"(Benefits?) None that I can see. Employees will be laid off as the usual 'streamlining' occurs. This always results in less time to do a job/repair and sometimes shoddy work."

"An equal or better level of service after a restructure, operating cost savings where it would not affect service quality level or property standards (when existing is above regulatory standards)."

Lines in the sand

In addition to identifying the key benefits they'd like to see from mergers and organisational changes, respondents were also asked: ***"What three things would you NOT want to see?"***

Again, the answers were diverse but similar themes emerged. Below are some of the things that the majority of residents absolutely did not want to happen:

- ***An increase in rents, or in service charges***
- ***A reduction in resident involvement, or an absence of resident consultation***
- ***Losing local points of contact***
- ***Removal of, or reductions in, services***
- ***Lowering of standards particularly, but not exclusively, in repairs and maintenance***
- ***The 'wrong fit' of new staff, from frontline workers to executives***
- ***Organisations that are too big and staff too out of touch***
- ***The loss of genuine social housing, or too great a focus on private sales and rents.***

Other individual responses highlighted some interesting issues around the ways residents wish to engage with their housing providers and reflected opposition to the direction of travel of many organisations. Respondents didn't want to see:

- ***A call centre-type service***
- ***Digital only access methods***
- ***Cuts to or relocation of staff leading to a drop in support***
- ***The new organisation being more intrusive than the previous one, including concerns about the introduction of more conditionality in tenancies***
- ***"Any more meaningless job titles created."***

Accountability

Respondents were asked: ***"How should landlords be held accountable for the decisions they make?"***

The overwhelming response was that landlords should be held accountable – directly – to their tenants, although often there was not a great deal of detail in the mechanisms that would be employed to bring this about:

"Make decisions based on residents' opinions, these people have a right to what happens in their lives and should not be ridden roughshod over as if they do not matter. If a decision is made which later proves to be wrong the landlord should have the courage to own up to the error and correct it."

"By a GENUINE tenant-led scrutiny panel and not a watered down version imposed by management as happened at [name of housing provider]."

"More tenants on the committees that run the organisation."

"For major decisions landlords should be accountable before a decision is made. A home is not like a washing machine where you can decide never to buy that make again if it turns out to be rubbish. For most people a home is their most important thing of value only topped by family and friends. If decisions are made in a transparent and honest way and (a) tenant audit finds that the decision was lacking they will then share in the accountability for it."

Many respondents recognised that the regulator, the Homes and Communities Agency, might be a port of call where things have gone wrong, or that complaints can go to the Housing Ombudsman:

"The housing regulator should be acting on behalf of tenants and ensuring that any merger is really in the interests of tenants and what they truly want."

"Through tenants and HCA."

"Accountability should start with the tenants all the way up the regulator – or – vice versa."

"The HCA should hold them accountable."

"Tenants can complain to the housing ombudsman if decisions made by the landlord materially affect them are not considered during the merger. The landlord must encourage tenant participation forums to be kept aware of tenant concerns."

Some respondents clearly felt that there should be legal recourse where things have gone wrong, or that people who had made bad decisions should lose their jobs, or worse:

"They should be held liable for breach of trust and negligence. [Name of individual] should be prosecuted."

"They should be able to be taken to court."

"IF THEY DON'T KEEP TO THEY PROMISES, PEOPLE SHOULD BE SACKED."

Some responses considered more than one of the ways in which accountability should be measured, including recourse to legal action:

"A) Legally in retrospect for any related change to the present existing framework of the purpose of this organisation (related to social housing responsibility) B) Public political scrutinising for any trial to change away from social housing (the government has already made enough mistakes on this sector in the past) C) Legally in relation to the reduction of necessary services in sheltered accommodation putting residents

at personal, physical or mental risk initiated by introduced changes.”

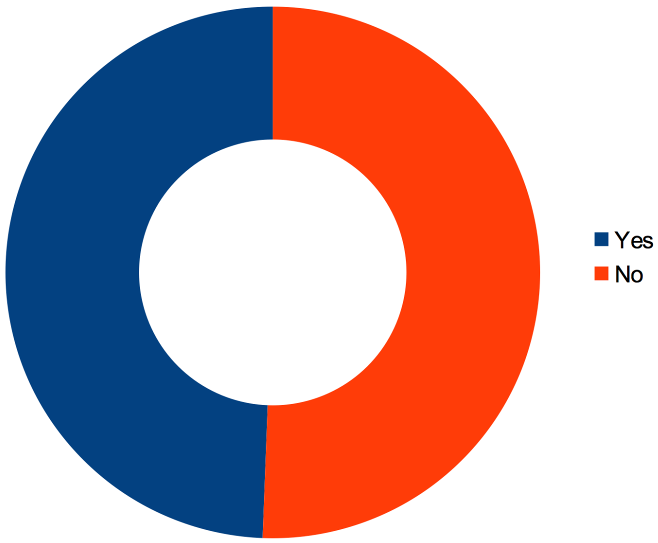
Many responses took a proactive approach, looking for transparency and information sharing from the beginning to head off mistakes that might occur further down the line. The strong underpinning principle was that residents know better than anyone else how their communities work, and that this is invaluable information that should help to inform mergers and structural changes, not be considered as an afterthought, or worse still after any such change has already taken place.

“The senior teams and trustees should be more open and transparent in all areas, eg, Salary, expenses, job role. If there are failings they should be answerable to these and disciplined if necessary.”

“Have residents on the board and attend all meetings. Get the suits out and about and meet/get to know who they are serving.”

“Tenants electing their own representative group to liaise regularly with boards of trustees, local councillors and MPs; Tenant consulted about all major spending, development and merger decisions and outcomes of such consultations and responsive decisions published; Open, formally minuted AGMs where tenants meet senior staff and board members to discuss the annual report and accounts that include pay structures and perks; CEOs and directors to report at least quarterly to Tenant and Resident Associations.”

Get involved



As a resident, do you have experience of being involved in major decision making?

Respondents were asked a series of questions about their experience of involvement in major decision making. Views were also sought on what makes involvement worthwhile, and what organisations should avoid doing.

"What three things make resident involvement meaningful and worthwhile?"

The raw data that makes up the answers to this question would be a welcome sight to anyone – resident or staff member – who works in co-regulation, tenant involvement or resident-led scrutiny. It should also give pause for thought to anyone involved in structural changes that don't currently involve residents. Beyond the desired benefits for themselves, there is a real sense that residents also want to see their landlords succeed, and to be involved in co-operative work to make sure that this happens:

"[Housing provider] giving opportunities to tenants to get involved in various projects."

"Partnership between me and [housing provider]."

"Friendship."

"Knowing your landlord is committed to resident involvement."

"Satisfaction of knowing our communities are catered for in every aspect."

"Having a voice."

"Having a say."

"Teamwork."

"Helping other residents."

"Empowerment."

"Transparency."

"You can make a difference, large or small."

"Fosters co-operation."

"Feeling valued."

"Training."

"Being believed."

"Opportunities."

"Full participation in decisions."

"Advising landlords on social responsibility."

"Improving services that the company provide."

And so the entries keep rolling – even the person who answered "Not a lot" to the first two spaces left for the three things that make resident involvement meaningful, entered: ***"It's worth a try – if you don't at least try then you can't moan"***. Tenants broadly see proper resident-led involvement as a way of improving their communities, but they also appreciate being able to inform and improve the services that landlords provide, for their providers as much as for themselves.

You're doing it wrong

Respondents were also asked: ***"What three things should organisations avoid doing?"***

An unofficial mantra of HQN's Residents' Network is that 'there's no right way of doing co-regulation or resident involvement'. The Homes and Communities Agency operates using the regulatory framework and consumer standards that outline what responsibilities registered providers have to their tenants. The way that these responsibilities are met are very much left up to individual landlords to implement.

Indeed, one of the most powerful tools at the disposal of the Residents' Network is the ability to get people together to learn from the things that other teams of residents and staff are doing, and the ways that they are doing them.

If there was an unspoken addition to the 'right way' mantra, it might go something like 'but there are a number of wrong ways to do it'. The things that respondents think their landlords should avoid doing cover a broad range:

"Only being a business."

"Focusing purely on profit."

"Overspending," and "overstretching financially."

"Becoming complacent."

"Talking down to involved residents, or paying lip service."

"Sitting in offices."

"Only look at one side of the problem – their side, not the tenants."

"Stopping building social housing."

"Not considering tenants at all."

"Never assessing the competence of management or staff."

"Applying too much rigidity and red tape to tenants."

Many of the responses expressed concerns about driving a wedge between residents and staff as a result of organisations changing without resident input. For some respondents, their providers are already cutting back or rationalising the resources for resident involvement, and others are worried about the longer-term costs that these short-term savings will incur:

"Stopping resident involvement."

"Taking residents for granted."

"Not consulting with tenants on major issues."

"Not involving tenants/leaseholders in decision making forums."

"Trying to lead involved residents."

"Not supporting the community."

"Cutting funding for involvement."

"Assuming they know what residents think."

Some responses reiterated the potential financial and cultural pitfalls of ill-advised mergers and organisational changes:

"Increasing costs."

"Reducing efficiency."

"Changing declared purpose under political or financial pressure."

"Do not lose sight of initial aims, principles and goals."

"Endangering their financial viability."

"Allowing bad governance."

"Making big profits for financial gain, not for better services."

Making a difference

The respondents were asked: ***"To what extent can resident involvement in major organisational change make a difference?"*** With a view to capturing the central issues for residents.

Many of the responses emphasised notions of teamwork and co-regulation that featured in earlier positive responses:

"They can point out to management the little things to them that tenants find important to them, that they would otherwise not know about. Could make the difference between delighting their customer rather than just supplying."

"I suppose if it happens for real it can genuinely change an organisational culture from being overbearing, defensive and focused on paid staff needs and status, to one where imaginative intelligent lateral thinking and independent, thriving mixed communities are central."

"We need to make sure there is not a culture of them and us. We can keep them grounded and make sure they understand the needs of their tenants/customers."

"Residents are able to influence policy and culture, as well as contributing to service improvement."

It can be difficult for registered providers to relinquish control of the design and provision of their services, but as budgetary constraints may lead to lower spending on resident involvement, residents understand that they are often in a better position to see what issues face their communities, enjoying unique access not readily available to staff members. Residents want to share this information, although sometimes establishing the channels that allow them to do so can take time:

"No-one knows better than the residents what is really going on (or what is urgently needed) on the scheme and within communities."

"Residents are the eyes and ears of the company. Value for money involvement."

"Save money. Get things right the first time. Ensure that, as much as possible, that resident satisfaction is upheld, therefore adding to sustainability."

"Because at board level they will hear from the residents first hand. Which would in return help the board make right decisions."

"The tenant panel is a vital resource to help other tenants buy into the benefits of a structural change."

"We have the soft skills that the people that work in the industry do not have."

There was a keenness to implement preventative measures in some of the responses, alongside sentiments that time and money are wasted when decisions are taken without resident input:

"Resulted involvement does make a difference. [Named housing provider] knows that in the past some tenants have gone to the press and [housing provider] doesn't like bad press, so they have found it better to listen to the tenant and try to work with them."

"It can if a residents' body/committee has potential access to the views of all residents and the board encourages involvement. My main concern is that if you are not careful the board can overload a residents' group with more mundane matters to the exclusion of major strategic decisions – these having been taken already without proper consultation."

"Sensitive and sensible ideas can bring in new perspectives as managers don't usually live in housing association dwellings."

"The resident is actually living with the problem whereas the organisation is aloof and does not see or really want to understand the problem. It is all about getting the right input which can make a good difference."

Some responses were less positive, recognising that there is a danger resident involvement can come too late, or it can be something that is undertaken as a tick-box exercise. Sometimes evidence is gathered and then ignored, often to the eventual detriment of whatever plans were initially made.

"Resident involvement can make very little difference in major organisational changes when the landlord decides on the changes and THEN advises residents or does not adequately explain the changes or listen to resident concerns. Meaningful discussions with residents can avoid confrontation and lead to a more satisfactory result."

"It only works if the organisation listens and respects residents' views – and when they give residents enough information for them to be meaningfully involved."

"None because you will do what you want to do anyway."

"Very little as not experts on the business and financial side."

"As far as I can see, not a lot."

"Not a lot – paper exercise in a lot of cases."

"Not much!! Lip service only and "choosing colour schemes" for decisions already made."

"None. Decisions are made by the board despite them inviting suggestions from resident groups. As a result some of the decisions made by this particular board have been disastrous."

Go where you want to go, do what you want to do

Finally, respondents were asked: ***"What kind of involvement would you like?"*** Having had an opportunity to describe what is happening, this question was designed to allow some speculation about how things could look.

Many of the responses identified some areas where there could be improvements in the way that involvement could be encouraged by registered providers:

"I was on a committee a few years ago when I was out of work, but when I started work again, I could not get to the meetings as they were nearly always in the daytime, which was obviously not convenient."

"With [named housing provider] they do it through meetings I can't get to. There needs to be an online participation option for people who can't get to meetings or for whom meetings just wouldn't work (many with autism might find the meetings sensory overload or not an environment they can speak up in or they might be non-verbal anyway, for example.)"

"More communication via email or post so that personal appearance at a tenant panel is not necessary."

"Regular resident forums with senior members of the association staff attending to advise and answer queries on proposed changes. Monthly newsletters in hard copy for residents without computers with local news relevant to the association as well as board decisions that may affect them."

"I have been involved over the past 16 years in many aspects but feel that, at the present moment, the company is cutting down on consulting with residents or allowing them to be involved anymore."

Many respondents feel that tenant forums would be a good kind of involvement to have, with more information being shared from their landlords. Some respondents have already been involved, often for extensive periods of time and on a range of different involvement, scrutiny and co-regulation issues:

"I like the involvement I currently have by working on various working groups and having a seat in a non-voting capacity on the board."

"From ground level panels feeding up to scrutiny groups, feeding up to a more professional level engaged team of tenants, represented by one of them at board level."

"I'd like to contribute at board level to decision making especially about development, allocation, designing homes for life, and good practice. I'd like to help retrain housing sector staff, especially senior ones, in how to listen to, hear and respect the people who pay their wages."

"To be available alongside my tenant panel member at community events before, during and after major structural changes to hand out important and useful information clients might welcome on changes not quite clear to them yet, plus the usual support."

"At [named housing provider] the resident involvement has been very good. Face-to-face consultation has been ongoing and the shaping of services has been helped greatly by the residents – this should continue. Face-to-face meetings with the other company."

"A tenant forum to make sure the executive directors and board are accountable for decisions that they make; involvement in procurement where money is spent. I would like to see directors staff and tenants working together for a better life."

"A strong residents' committee with good collaboration with the board; regular joint meetings; excellent training sessions given by relevant heads of department; and appropriate information to be able to consider decisions properly with regular feedback on progress and aspects of particular concern to the residents group."

A lot of responses showed a degree of contentment with their current set up, or had shorter, more direct requests about what they'd like to see:

"Exactly what I have at the moment, open, welcoming and always moving forward."

"More face-to-face contact and issues dealt with."

"Happy to talk about anything."

"To be consulted and kept informed."

"On a volunteer basis, on various panels, whether decision making or advisory."

"Updates. Regular meetings. Newsletters. Visits."

"Want to see the whites of their eyes, want to meet the other side."

Some desired powers were explained simply, but might have far-reaching outcomes, while other respondents did not feel that they were likely to be heard:

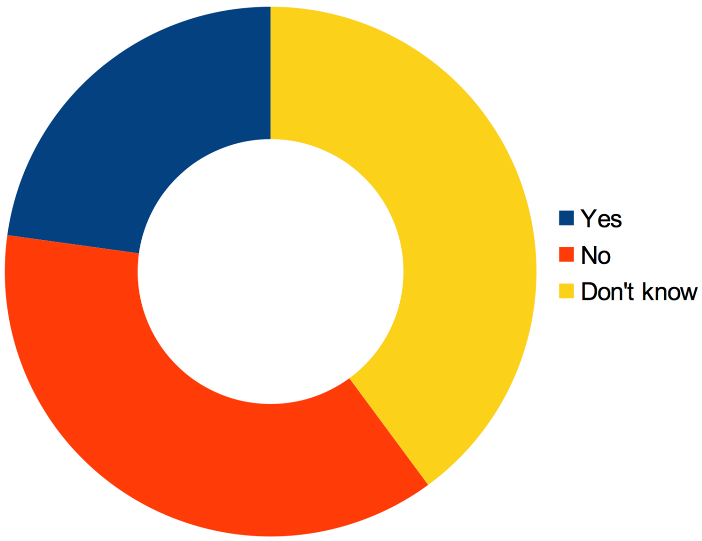
"Veto on mergers."

"With the current management, NONE!"

"To be kept informed of any process that fundamentally changes my tenancy – particularly regarding my disability needs. Ill health prevents me from taking a more active role in any discussions and if my responses are negative to a proposed merger, then that's an accurate interpretation of my feelings so soon after [named housing provider] succeeded in gaining control of [a housing development]. Economies of scale are necessary in this world but bigger is not necessarily better and I have little confidence in a proposed merger."

"It would be helpful if one could think that my opinion would be listened to. However, having seen these types of organisational changes the parties steamroller over all opposite opinion."

The Good, the Bad and the Unsure



Overall, do you think mergers are a good idea?

Once again, respondents were split on whether they thought mergers were a good idea. Under a quarter of residents were unequivocal in saying that they were, with just 22.8% positive responses. 37.3% thought they were definitely a bad idea, with the remaining 39.9% not sure one way or the other.

These figures were slightly different for respondents with direct experience of a merger, with a higher proportion (33%), saying they are a good idea, 40% saying that they are not, and only 27% of those who had experienced a merger still being unsure about whether they are good or bad.

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