Black and minority ethnic housing associations: the challenge of growth and viability

An assessment of governance, management and regulatory responses to the challenge of growth and viability since 1988
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EXECUTIVE SUMMARY

BACKGROUND

This review of black and minority ethnic (BME) housing associations was commissioned by the Housing Corporation (the Corporation) in 2002. The aim of the review is to establish how successful these associations are in dealing with the dual challenge of growth and viability. The review also provides a better understanding of the factors that have enabled some BME associations to develop successfully, whilst others have experienced major internal and external problems or failed to maintain their independence.

The research upon which this review is based and the subsequent synthesis has provided the basis for a number of conclusions about reasons for the success or failure of BME housing associations, and any thematic or universal traits into which these reasons fall. As a result it has been possible to make recommendations which can be adopted by housing associations to improve their ability to remain viable and to be successful. The impact of the Corporation’s regulation and inspection strategies has been examined and ways in which they could be improved are proposed.

The research also included a sample of comparable non-BME housing associations. This was done in order to test the extent to which non-BME housing associations were faced similar problems to BME housing associations. In order to do this, interviews were held with 11 BME housing associations and five non-BME housing associations. This group covered a representative size range and geographical area, and included those which were successful and unsuccessful.

The analysis contained in this review has revealed differences between those events or actions which caused success or failure and those which merely contributed. Often no single event caused success or failure, but rather, a series of actions or inactions. In the same way, there was no discernible difference in the reasons for success and failure of associations in London and those in cities outside London.

There was no difference in the reasons given for success or failure between the BME and non-BME housing associations. Those that failed seemed to do so for much the same reasons, regardless of location and whether they were BME or non-BME housing associations. Nor was there any difference in the reasons given by small and larger housing associations.

The general conclusion of this research is twofold:

■ The needs of the black and minority ethnic associations are served well within the current regulatory framework and specific changes are not needed.

■ Our perception is that there are no specific black and minority ethnic reasons for failure at all; only specific reasons for each association’s failure and these are rooted in the skill and behaviour of the Board.

Consequently, the recommendations provided in this report apply throughout England and to BME and non-BME housing associations, irrespective of size.

What follows is a summary of what was revealed by the research carried out over a series of months with the chosen housing associations. Initially this has been grouped into factors which contribute to the success or failure of organisations and these are summarised below. This is developed into a series of recommendations which are potentially useful as a good practice guide for everyone working in the social housing sector.
FACTORS CONTRIBUTING TO SUCCESS

The following factors were identified as contributing to the success of housing associations, both BME and non-BME. They all represent characteristics of the successful housing associations interviewed.

- One of the most striking characteristics of the successful housing associations was the performance of the Board. These housing associations have Board members who are self reliant and well motivated, and with a very clear idea of their roles and responsibilities. They are able to distinguish between the strategic and the operational functions of the business and do not interfere with the latter.

- People are regarded as the key to success, particularly Board members. Raising the quality of Board appointees is regarded by these associations as being critical to improving the effectiveness of Board members, and consequently the success of a housing association.

- Some assess Board skills on a regular basis, use some form of skill audit, and attempt to provide the Board with the missing skills.

- The Boards are changing on a regular basis. That is, Board members stand down by rotation to allow new Board members, often with fresh ideas, to take their place.

- The Boards tend to be progressive, and aware of the business environment in which the association operates and the regulatory arrangements of the Corporation. Many also have close associations with the local authorities in the areas in which they operate. There was no implication from the research that a Board which maintains a local community focus cannot be progressive.

- They employ effective and competent management, and attract staff with broad life skills in addition to the specific technical skills which are required to do the job.

- All have positive and effective training programmes in place.

- Many concentrate on a specialist market, with very little geographical dispersion. They also form a variety of partnerships with other housing associations, not necessarily in their field.

- The training of tenants is an important area for the successful associations. This often results in improving the association’s local popularity, and enables it to become a partner in other local developments.

- Those housing associations which have failed and been placed in supervision have often been able to turn the opportunities created by supervision to their advantage. They have learnt what is required from them by the Corporation, and put it into practice.

- Some failed housing associations have achieved success and stability by joining a group. Those which have done this successfully have been able to convert failure to success, and they view change as an opportunity rather than a threat.
FACTORS CONTRIBUTING TO FAILURE

The following factors were identified by the research as contributing to failure. They apply to all housing associations which were interviewed and which had failed.

- Board performance is also a major contributory factor for many failing or failed housing associations. They have a poor grasp of their responsibilities and opportunities and are not effectively in control. These problems are compounded by poor understanding of the Corporation’s regulatory role and lack of acceptance of their responsibilities.

- They are in the main resistant to change, and it is difficult for new members to join the Board. In many cases potential new members are not actively encouraged to do so.

- Some of the Boards are drawn mainly from the local community and may not have the business skills necessary to run growing and increasingly complex organisations within a regulatory framework.

- Some failing associations have great difficulty in recruiting suitable Board members even when the desire of the existing Board is that recruitment should take place.

- Any restrictions on the potential pool of Board members could be detrimental to the formation of a successful Board.

- The operational management of these failing housing associations is likely to be a direct result of the failure of the Board. It is difficult for even competent managers to be successful in these circumstances.

- Some failing associations had decided to pursue the delivery of non-housing services, in areas in which many had no expertise, and often made inappropriate investment decisions.

- All of the failing organisations, or those which had failed, had during the period of failure no training and development plans in place.

- Some failing housing associations were those which had expanded too quickly into what were perceived to be attractive markets. They often grew without the management strengths to manage the circumstances in which they found themselves, and the Boards of these associations were unaware of the risks which were being taken.
RECOMMENDATIONS

The main features of the recommendations are as follows:

1. The role of the Board

■ Adopt and implement the Higgs report Review of the Role and Effectiveness of Non-Executive Directors in a way proportionate to the size of the association, and adopt the proposed code of practice.

■ The Board should be representative of the community served.

■ The Board should ensure that monitoring procedures are in place and that they receive regular management reports on all aspects of the business.

■ All potential new Board members should undertake initial training before taking up their position. This may be done by developing observer or shadow roles for potential Board members.

■ The Corporation should re-assess the requirement that BME associations should draw at least 80% of their governing body from BME communities.

2. Management and delegation

■ Senior management staff should be appropriately qualified or have experience in the discipline in which they are engaged.

■ Senior management should develop financially sound business plans for Board approval.

■ Monitoring reports should be presented to the Board on a regular basis.

■ Senior management should be given delegated responsibilities.

■ Reporting systems should require expenditure to be reviewed independently of those responsible for their preparation.

■ The Board should check that the monitoring of risk is being effectively carried out.

3. People, relationships and training

■ The training needs of all staff should be identified and appropriate training and development provided.

■ Annual reviews of staff should be undertaken.

■ The principles of continuing professional development should be adopted.
4. Group structures

- Clearly defined relationships, responsibilities and arrangements for independence should be agreed at the start.
- Financial arrangements, commitments and support should be identified.
- Responsibilities at management and Board level should be clear, together with representation on each other’s Board.
- Larger housing associations should not see group structures as a means to attract small associations and then absorb them at a later date.
- In a non-BME group, a BME housing association that has developed skills and expertise with BME communities should provide BME based generic skills and knowledge to the group.

5. Partnerships

- Where a small housing association either does not want to join a group structure or cannot find a suitable group to join, working in partnership with other housing associations can provide some of the group structure advantages.
- The partnership agreements should set out the responsibilities, sharing of costs, and liabilities of the arrangement.
- Partnerships should benefit from members being BME and non-BME housing associations.
- Lead partners should help provide the type of accommodation which the community represented by the BME housing association requires.

6. Observations on the role of the Housing Corporation

- When supervision is decided upon the action should be positive with realistic timescales being agreed for appropriate action.
- The current sanction of withdrawing grants should continue to be used.
- Corporation staff should be clear about the actions necessary when they are of the opinion that individual or groups of Board members or senior staff are the problem. The associations value the help and assistance of individual Corporation staff and this role is highly appreciated. It should be encouraged in addition to the formal regulator role. Options should be developed to enable the Corporation’s role to be extended in this respect.
- Investment in the personal and technical development of Board members will have considerable benefits for the sector as a whole, and any directives issued should include requirements that Board members attend appropriate training courses. The Corporation’s regulatory objectives include promoting high quality governance, probity and the reputation of the housing association sector. All the evidence gathered throughout this review indicates that this aspect of registration and regulation is of primary importance and needs to be prioritised accordingly and should form a significant part of the regulatory plans.
1. INTRODUCTION AND BACKGROUND

1.1 INTRODUCTION AND PURPOSE

In 2002 the Housing Corporation commissioned a review of Black and Minority Ethnic (BME) housing associations. The aim of this review is to establish how successful these housing associations are in dealing with the challenges of growth and viability and to understand the factors that have enabled some BME housing associations to develop successfully, whilst others have experienced major internal problems or failed to maintain their independence. In addition it is to consider what lessons can be learned by the housing associations themselves, by the Corporation and by other stakeholders, and to recommend action to help them and, in particular the weaker housing associations.

The results of this review could form the basis of best practice guidance. This report is also intended to be a useful reference document for staff and Board Members of all housing associations and for the Corporation, to assist on the development of future policies.

One of the inevitable consequences of the interviewing and data collection process used is the huge amount of information that has been obtained. So much was gathered, as often happens with reviews of this nature, that there is a danger of drowning out the signals. A rigorous examination of the collected data and a peer review process has prevented this. It is also likely that to increase the sample size of BME housing associations interviewed would add little to the conclusions or recommendations.

1.2 THE RESEARCH BRIEF

This review considers a small sample of BME housing associations. It includes some that have experienced significant regulatory or other problems since registration, and also those that have established a stable base and a solid track record. It also includes a sample of comparable non-BME housing associations which have been used as a basis for comparison to test whether the issues raised are generic to the sector or specific to BME housing associations. It enables an examination to be made to see whether any features of the Corporation’s regulatory or investment policy or practice contribute to the problems which some BME housing associations have. This includes an assessment of the Corporation’s supervisory approach when problems are identified, and of the housing associations’ response. The aim is to draw general conclusions where possible including:

- The reasons for the success or failure of BME housing associations. (See sections 4 and 6).
- Any thematic or universal traits. (See section 4).
- Recommendations on what steps can be taken by existing housing associations to increase their ability to establish financial and management viability. (See section 5).
- The impact of the Corporation’s regulation and investment strategies and how these might be improved. (See section 5.8).

1.3 BACKGROUND TO THIS REPORT

The Corporation is the government agency which funds and regulates approximately 2,000 registered social landlords (RSLs) in England. Most RSLs are housing associations. Since the 1988 Housing Act, housing associations have funded their development through a combination of public grant administered through the Corporation and funding raised on the open market from private lenders. Previously, housing associations were funded by a combination of grant aid and public loan. Their income is mostly derived from rent, though some also sell properties.

The Corporation has always been concerned about the needs and aspirations of BME communities. However it recognised in 1996 that this public emphasis on BME housing associations allowed non-BME RSLs to place
less emphasis on this aspect of their role and it was therefore necessary for the Corporation to restate its policy to stress that this focus on BME communities was part of a wider agenda. This restatement of policy together with the provisions of the 1996 Housing Act, which resulted in withdrawal of the legal duty of the Corporation to promote housing associations, was regarded by the sector as a withdrawal of support for BME housing associations. To some extent this perception amongst BME housing associations may be true and is reflected in the views of some of the BME housing associations in the sample group. Some of these views may be based on conviction as a result of direct recollection of these events, others as a result of inherited opinion or hearsay.

From 1986 it was the Corporation’s intention that BME housing associations should manage and eventually own housing stock. The Corporation’s experience was that ownership was a high priority for these housing associations so that they could develop an asset base and gain more direct control over the housing stock. The evidence suggests that ownership remains an important area for BME housing associations and is often an area of some difficulty.

Many BME housing associations did not start with a substantial portfolio of unencumbered stock against which they could spread the cost of private finance they had raised. This meant that their rents and operating costs were correspondingly high, and often remain so.

The association is a general needs housing provider with a management currently of 250 homes. It was formed as a housing co-operative and began by managing a small number of short life properties. The association has been in supervision for over a year, and the association’s present problems can be traced back almost to its formation. It did not have the capacity to move to a larger size quickly, and proceeded to fail.

Failing BME housing association in London

The Corporation’s BME Housing Policy, *Black and minority ethnic housing policy* (Housing Corporation, May 1998), stresses the role that BME housing associations should develop in the future. It acknowledged that some of the existing housing associations had been unable to secure financial or management viability, or both, and committed the Corporation to working with those housing associations to establish their potential to reach viability. However, since that time, while some BME housing associations have re-established a more stable existence, others have experienced serious difficulties. This review considers both the internal factors that have affected housing associations’ performance, and the impact of the environment in which they operate.

1.4 THE FORMAT OF THE REPORT

This report begins by describing the research methodology used, including the sample sizes and their characteristics, and the reasons for the choice. It continues by describing the reasons for success or failure using the results of 16 case studies. The case studies, which are the result of interviews with the sample BME and non-BME housing associations, form the basis of the discussion. The discussion includes an analysis of the factors which affect them. They have been grouped into four performance categories, and the effect on their viability is also considered.

The report concludes by making recommendations. These apply to BME and non-BME housing associations and to the Corporation. These include recommendations to enable BME housing associations to improve their ability to establish financial and management viability. This report is intended to be a useful reference document for staff and Board members of all housing associations and for the Corporation, to assist in the development of future policies.

Organisations registered with the Corporation are known legally as Registered Social Landlords. For ease of reading and consistency they are referred to in this report by the generic term ‘housing association’.
1.5 ACKNOWLEDGEMENTS

We would like to thank all the associations interviewed for their co-operation and frankness. 11 BME and 5 non-BME housing associations have been interviewed and have supplied documentation and information about their organisations. Without their help, openness and assistance the details in this report could not have been gathered. We would also like to thank the Corporation staff for their views on the various issues raised and for their contribution to background and historical information.
2. RESEARCH METHODOLOGY

2.1 GENERAL

The research methodology is based on a process involving:

a) A nominated sample of BME housing associations.

b) A nominated sample of non-BME housing associations.

c) An interview programme with each of these housing associations.

d) An examination of documentary evidence where this was available and provided by the housing associations.

e) Interviews with Corporation staff.

The research was carried out during January, February and March 2003.

2.2 THE SAMPLE OF BME HOUSING ASSOCIATIONS

A nominated sample of 11 BME housing associations was used. This represents about one fifth of the total number of BME housing associations registered with the Corporation. These associations were chosen to be representative of one of four performance categories and from three size ranges.

The four performance categories are:

A  Housing associations which are failing and for which remedial measures are not yet in place, referred to as Failing.

B  Housing associations which have failed and as a consequence joined another group, referred to as Failed and joined a group.

C  Those which have failed but which have recovered and remain independent referred to as Failed and recovered.

D  Housing associations which have been and continue to be successful, referred to as Successful.

Three size ranges for the BME housing associations were also chosen. These size ranges, measured in units in ownership or under management, are:

- 100–250 units
- 251–1,000 units
- over 1,000 units

The non-BME housing associations were all in the size range 251–1,000 units. Distribution over the four performance categories and three size ranges of the nominated sample of 11 BME housing associations is shown in Exhibit 1.

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<th>Performance category</th>
<th>Size range (units)</th>
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<tr>
<td></td>
<td>100–250</td>
<td>251–1,000</td>
</tr>
<tr>
<td>A</td>
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<td>1</td>
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<tr>
<td>B</td>
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<td>C</td>
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<td>D</td>
<td>1</td>
<td>1</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>4</strong></td>
<td><strong>6</strong></td>
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2.3 THE SAMPLE OF NON-BME HOUSING ASSOCIATIONS

The five non-BME housing associations interviewed were all distributed within the size range of 251–1,000 units. They were in performance categories B, C and D. The non-BME housing association interviews were used as a basis for comparison with the results of the interviews with BME housing associations. The distribution of the non-BME housing associations over the size range and performance categories is shown in Exhibit 2.

2.4 THE INTERVIEW PROGRAMME

All the interviews were conducted on a broadly comparable basis. The interview agenda covered, where possible, the following subject areas:

a) The Origin, Constitution and Objectives.
b) The Role and Contribution of the Board and Senior Management.
c) Initial and Subsequent Training and Support.
d) The Regulatory History and Environment.
e) The Financial History.
f) Growth in terms of public investment and stock transfer.
g) Governance and Management Performance.
h) Service Delivery

Care has been taken to avoid bias in the interviewing process. The interviewers were allocated a mix of BME and non-BME housing associations and those housing associations in London and outside London. The interviewers were also allocated to housing associations in different performance categories.

Some of these areas were covered more thoroughly than others, and to some extent this depended on the size of the organisation, its performance category, and the representative being interviewed. For example, not all the sample had financial and similar information readily available, and not all of those interviewed had knowledge of or interest in past events.

The association is the result of a merger of three other BME housing associations. It went into supervision about two years ago as a result of difficulties with financial management. The current Director is a fairly recent appointee and could not offer a detailed explanation as to why this situation occurred. In addition other Directors, of Housing and Finance, as well as most of the senior management team, had resigned from their posts. The Corporation has engaged consultants to provide management resources.}

Failed and joined a group BME housing association outside London
There is therefore an inevitable lack of consistency between the written reports of the case studies. The case studies at the end of this report are an edited version of the full reports prepared as a result of each interview. Section 4: Reasons for Success or Failure, and section 6: Key Contributors to Success or Failure are based on these interviews.

The results of the interviews have been prepared as case studies and reflect the four performance categories and four business conditions. The results have been used in the case studies where applicable.

2.5 INTERVIEWS WITH THE HOUSING CORPORATION

In order to obtain a balanced view of the case studies, particularly for factual accuracy and historical context, Corporation staff based in field offices have reviewed the case studies. In addition the interviews which took place with the Corporation took two forms. They were:

a) Meetings with the field office staff, particularly for London where the majority of the two samples were located. Outside London this was done by visit and telephone where possible.

b) Meetings with the Corporation head office staff in order to test the extent to which the preliminary results were reflected by the Corporation’s own experience.
3. THE ROLE OF BME HOUSING ASSOCIATIONS

3.1 GENERAL

There are over 100 BME housing associations in the UK. 63 of these are registered with the Corporation, an arrangement which allows them to bid for grants. The Corporation’s policy on BME housing associations is described in BME Housing Policy (Housing Corporation, May 1998). The policy framework is based on the knowledge that BME communities:

■ Suffer disproportionate levels of housing need;
■ Encounter barriers in employment and in the delivery of health and educational services.

The objectives of the Corporation’s policy in summary are to:

1. Promote race equality.
2. Ensure that housing associations deliver a high standard of service to people in BME communities.
3. Ensure investment in, and delivery and regulation of, services to reflect local needs.
4. Maintain a vibrant BME housing sector.
5. Promote greater accountability of all housing associations.
6. Contribute to the success of wider social policies.

This policy has statutory backing through Section 71 of the Race Relations Act. The BME population is made up of diverse communities with a wide range of needs and aspirations. Needs change over time, not least through demographic changes and the development of services by local providers.

3.2 SIZE AND MARKET SHARE

BME housing associations are, on the whole, quite young organisations, almost half having been established since the 1988 Housing Act. Most are very small although the three largest now own or manage nearly 10,000 homes between them. Of the 62 BME housing associations registered with the Corporation 13 own or manage less than 100 units, 11 own or manage between 100 and 250 units, 33 own or manage between 250 and 1,000 units and five own or manage over 1000 units. The total units owned or managed by registered BME housing associations is just over 33,300, compared with the mainstream housing association sector in England which manages 2,084,000 units.

BME housing associations represent a comparatively small part of the total sector. The 23 largest manage 20,800 units with a gross turnover of £82 million and gross assets of £1.2 billion. This compares with the mainstream housing association sector in England which manages 955,000 units with a gross turnover of £3.6 billion, and gross assets of £36 billion.

3.3 THE MARKET AND THE BME HOUSING ASSOCIATION RESPONSE

For the successful developing BME housing associations, raising private finance has proved less difficult than expected. Asset base, cash flow and management capacity determines terms and conditions, rather than the fact of being a minority housing association. However many lenders prefer not to lend to small housing associations because of the perception, not based on fact, that their small size and rapid rate of expansion can lead to poor governance and management capability.

The Corporation’s strategies for BME housing associations have been vital in enabling them to succeed. Although they have been successful in the current market, BME housing associations’ sometimes fragile success makes them vulnerable to changes in the economic and subsidy environment.

BME housing associations fall into two main groups. There are those, usually smaller, which aim to provide a specifically community-oriented service, and those that are more mainstream in their approach, which tend to
compete more directly with non-BME housing associations. BME housing association rents tend to be higher than average as most have little or no capacity to keep rents on new letting down by cross-subsidising from previous developments. BME housing associations are also vulnerable to changes in economic circumstances. These include interest rate rises, rent restraint and changes to housing benefits.

Some BME housing associations are community-focused and provide specialist services, often using staff specifically recruited for their relevant skills. Tenants of these housing associations often use these services regularly.

The association was formed specifically to respond to neighbourhood unrest. Many of the original members were either homeless or poorly housed and their needs were not being met by local authorities or housing associations. Despite its small size the association regards itself as a resource centre to serve its community and other service providers and agencies seeking links into the community are encouraged to use the association as a information point.

Failing BME housing association in London

Although partnerships between BME and non-BME housing associations are seen as necessary and work reasonably well, the BME housing associations are junior partners in this kind of arrangement. The same is also probably true of many small non-BME housing associations. The circumstances surrounding the formation of BME housing associations referred to in section 3.4.2 may accentuate this view. They do not always achieve the type of built development that addresses their particular objectives, a fact which is often blamed on the real or perceived inequality of these partnerships. It is necessary for the lead partner to show an understanding of the work and the sensitivities of the BME association to achieve a partnership.

3.4 THE NATURE AND EFFECT OF DIFFERENCES

Some BME housing associations have made the claim that they are different to other housing associations and should be regulated in a different way. It is against this background that the BME housing associations’ claim to be different can be examined. The possible areas of difference are:

- The range of business undertaken
- Origins and motivation
- Community links
- Corporate structure

3.4.1 The range of business undertaken

For the non-BME housing associations in this sample, the business is generally applicable to a large proportion of the population in urban and rural areas, and there are possibly few regional or cultural differences. This is not necessarily true of large national non-BME associations as there are such associations providing homes in areas with diverse communities. BME housing associations, on the other hand, deliver a business service to areas with large concentrations of BME population, and to areas of scattered and potentially isolated communities. For those BME housing associations that focus on a specific community the cultural norms, and often the stock archetypes, will be different from one BME housing association to another.

The information collected from the relatively small sample of housing associations in this review has provided no evidence to suggest that business differences create material differences between BME and non-BME housing associations. The information gathered from the case studies indicates that BME and non-BME housing associations undertake broadly the same business and provide similar fixed assets both successfully and unsuccessfully.

The housing association is a family housing provider concentrating in particular on the needs of large families. It does not compete with mainstream housing providers. It grew out of an initiative started by the local community, which funded a research project looking at the establishment of a housing co-operative. The research established the need for a housing association rather than a co-operative. The association has established a niche market position.
and used its position as an employer of BME staff with language skills to its advantage. It regards business planning and market research as the key to its success.

**Successful BME housing association outside London**

The association was formed by the local church and local community groups to help homeless people and those in housing need. Four years ago, the Corporation suspended the association’s development programme because of poor management practices and a critical auditor’s report. Poor investment decisions were made and the Chief Executive resigned and additional support was subsequently provided by consultants. Three years ago, following a review of its services and its role as a housing provider, the association made a decision to join a group.

**Failed and joined group non-BME housing association outside London**

3.4.2 Origins and motivation

The perceived failures in the housing association sector as a whole to address specific housing needs, coupled with the consequences of wider discrimination in society, led in some instances to the formation of BME housing associations and their support by the Corporation. This perceived failure and discrimination led to very focused community-based BME housing associations, protective of their community responsibilities and sharply focused in their objectives.

In addition BME housing associations were often driven initially by firm political views in which the purpose of community empowerment was achieved by the creation of well run, professional black organisations. They have their origins in a specific BME community and it is these communities that they now serve.

In the sample of BME housing associations in this review the cultural identity of 6 of the 11 has remained strongly intact, and to a slightly lesser degree for a further 4. Cultural identity in this instance is defined as both the desire to house a specific community and the retention of a vision of community empowerment as a means to combat discrimination. This is not the case with non-BME housing associations in the sample group. Because the sample was small it is unlikely that this is representative of the sector. Their origins may have been to serve one geographical area, the result of the transfer of stock from a local authority, to serve a specific employment group, or to satisfy a social need. These origins may have been lost, retained or diluted with non-BME housing associations but the sample was too small to generalise at this point.

As stated above, in general the BME housing associations in the sample considered in this review, have remained true to their original aims. In the sample under scrutiny throughout this review there was no correlation between an adherence to original purpose and the efficient management of the organisation. There was also no correlation between the existence of founding members and the success of the organisation or the opposite. Equally there was no evidence to suggest that problems arose specifically because associations chose to focus on both the narrow role of housing a specific community and the wider activity of combating discrimination.

Organisations which had remained true to original purpose or contained original members appeared in both the successful and failing groups. There is therefore no evidence to suggest that the different origins of BME and non-BME housing associations lead to differing performance and therefore there is no evidence to suggest that they merit different regulatory treatment.

While the evidence is clear on this point from the sample reviewed other things were also clear:

- Officers in both failing and successful BME associations presented as professional and open to a consistent regulatory framework.
- Board Members of successful BME associations were content with a consistent regulatory framework.
On the subject of the Corporation and its responses to the BME sector, the Chief Executive’s opinion was that “the Corporation should take a tougher line and be more robust in its dealings with some BME associations”. He said that for some BME associations registration was too easy and not enough demands were made on performance.

Successful BME housing association outside London

Board Members of unsuccessful BME associations aspire to a different regulatory framework or even to no regulation at all. This aspiration was expressed as a negative feeling against any outside interference rather than a positive statement containing clearly expressed views of a different regulatory framework. Examples may give clarity to this point. The desire to hold Board meetings in members’ houses, a total frustration with the need to minute any meetings (including meetings at which personnel decisions were made) and a desire to house friends rather than be held accountable to allocation policies were all expressed. Unfortunately it is not possible from this evidence to suggest any alternative regulatory framework although a lightness of touch and a system which necessitated little paperwork would be popular.

The association grew organically but ran into severe financial problems about five years ago, when it made a major loss. The Corporation arranged for the association to join a group because in addition to this loss the business was not driven by performance. The association’s view was that the Corporation regulations have affected the development of the association. The association complained that it had received little support from the Corporation.

Failed and joined a group non-BME housing association outside London

In summary the evidence suggests that a well-run business, which understands the demands of both the market and its regulator, can remain true to its original purpose if desired and continue to prioritise non-core activities with the community. This is not the case in an organisation which fails to manage core activities well.

Four years ago, following a review of its services and its role as a housing provider, the association made a decision to join a group. The decision was made by the Board, and an interim management team had stabilised an otherwise failing association. The recovery plan proposed had not necessitated joining a group structure but the Board made this decision to seek a partnering relationship with a larger housing association. Some of the drivers for change were ambitions to increase property management activity and achieve economies of scale in terms of overheads. The association’s responsibilities now include the management of a substantial proportion of the Group’s properties based on service level agreements which govern the management contract between the association and the group.

Failed and joined a group non-BME housing association outside London

3.4.3 Community links

BME and non-BME housing associations all have links to the community. For reasons connected with community expectations, aspirations and motivation BME housing associations are likely to have stronger community links. The discussion in the previous section has shown how strong these characteristics are. The community links will be correspondingly strong.

These links are usually a two-way process. If the Board of a BME housing association or its management see that the community’s interest, or a section of it, is not being looked after then they will do something about it. If the community finds out the same thing then it will press for action. Running the business will nearly always take second place to looking after the community for many BME housing associations.

The sample of non-BME associations was not large enough to make assumptions about their behaviour in this regard.
3.4.4 Corporate structure

The corporate structure of BME and non-BME housing associations is broadly the same. This is a feature of companies limited by guarantee, and those which are Industrial and Provident Societies, irrespective of their size or their defining purpose. One of the differences between small and large housing associations is the difficulty which some of the smaller ones have in administering the rules.
4. REASONS FOR SUCCESS OR FAILURE

4.1 GENERAL

4.1.1 Introduction

This section provides a summary of the results of the interviews with the sample housing associations. It describes those factors which have led to success and those which have contributed to failure. The results of the analysis of this information are described. These factors have been described for each of the four business conditions, which are:

1. Internal Factors
2. The External Environment
3. The Corporation’s Regulatory Arrangements
4. The Corporation’s Supervisory Approach

These factors are defined in section 4.1.2 and have been related to the four performance categories previously referred to. Details of the individual factors which have contributed to success or failure are described in section 5: Recommendations. All have a demonstrable effect on housing association performance. The diagram in Exhibit 3 demonstrates these relationships. For the purposes of this review business conditions 3 and 4 above have been treated as one.

4.1.2 Definitions

The business conditions referred to above have been defined in the following way:

1. Internal Factors
   These are matters which are internal to the organisation and generally within its control.

2. The External Environment
   This refers to matters external to the organisation, other than the role of the Corporation, that generally are outside the association’s control.

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### Exhibit 3

**Factors leading to success**
- Internal factors
- The external environment
- The Corporation’s Regulatory arrangements
- The Corporation’s supervisory approach

**Factors leading to failure**
- Failing
- Failing and joined a group
- Failed and recovered
- Successful
3 The Corporation’s Regulatory Arrangements (including both Regulatory Arrangements and Supervisory Approach)

These arrangements are described in The Way Forward, Our Approach to Regulation and The Way Forward, Inspection: Our Approach (Housing Corporation January 2002).

4.2 GENERAL OVERVIEW

The interviews with the 16 housing associations which form the basis of this review have provided the reasons for their success or failure. These reasons are not diverse, but have common themes, and there are few of them. Most of the reasons are of such a generic nature that they probably apply to most of the housing association sector. The responses also revealed some other general principles.

The analysis has revealed differences between those events or actions which caused success or failure, and those which were merely contributory. Often there was no a single event which caused success or failure, but a series of actions, or inactions. Acts of commission and omission were equally responsible for the success or failure of the sample group. Those characteristics which contributed to success have been identified. Not doing them, doing them badly, or doing the reverse nearly always contributed to failure. Those characteristics of failure which the research has revealed, if reversed, will nearly always result in success or contribute towards it.

Some housing associations were more forthcoming in describing why they had succeeded or failed than others. Successful housing associations talked less about their success, probably because they took it for granted and assumed that their working arrangements, both within the Board and their management, were the only way to manage a business such as theirs.

Failing or failed and recovered, housing associations freely described why they had failed and how they had recovered. This was probably because the act of failure and recovery was such a traumatic event or series of events that it provided the basis of a large part of a housing association’s thinking, and made a substantial contribution to the folklore of the business. This information was usually provided by those who had subsequently taken over the management of the association. In this sense, the case studies are based on historical narrative.

There was no discernible difference between the reasons for success and failure by those associations in London and those in cities outside London. Equally, there was little difference in the reasons given between the BME and non-BME housing associations. Those that failed seemed to do so for much the same reasons, regardless of location and whether they were BME or non-BME housing associations. Nor was there any difference in the reasons given by small and larger housing associations.

It is important to distinguish between the origin or root of the failure and the reasons collected as evidence in this study. For example, the origin of a particular type of failure may be a total lack of skill among officers in the property development process which manifests itself as poor property investment decisions being given as the reason as part of the evidence gathering for this review. The underlying origin of this failure was not explained by the evidence and does not form part of this study. It forms an important aspect of developing a clear understanding of the way the BME housing association sector works.

Consequently, the recommendations given in section 5 apply throughout England and to BME and non-BME housing associations, irrespective of size.

The following sections provide an overview of the reasons for success and failure, and the role of the Corporation in these. More detail on each of these factors is contained in the case studies and they are summarised in section 6: Key Contributors to Success or Failure. The internal factors are those which are entirely within the control of a housing association, and for which the housing association must claim
credit or responsibility. A major thematic issue to emerge is the performance of the Board. Other themes are operational management, group structures, partnerships, geographical dispersion of the stock, and people, relationships and training.

External factors are those which, to some extent, are outside the control of a housing association, but which, for those which are successful, have been turned to their advantage. In any case, Boards cannot abdicate their responsibilities in relation to these external factors, and should make an assessment of the risks involved. For unsuccessful housing associations, these external factors have been regarded as a hindrance to their success or a contributory cause of their failure. The role of the Corporation in these matters, including the exercise of its regulatory powers, is described separately.

There is also the matter of the presenting problem often being a marker or outward manifestation of a larger underlying weakness. The presenting problem is the circumstance which is either drawn to the attention of the Corporation, or found out by the Corporation as a result of exercising its regulatory function. The presenting problem often hides a fundamental Board or management failure. This usually involves a poorly managed internal organisation or an unclear perception of the organisation’s strategic purpose, and the risks to which it is exposed.

In its early days the association was known to be a campaigning organisation. It received support from other larger housing associations and from the local authority. The performance of the association suffered a decline about four years ago, and there is a feeling that the association failed to notice what was going on. The Corporation’s response was to bring in consultants to help manage the association. The association experienced operational difficulties and as a consequence was placed in supervision. These operational and other difficulties masked the fact that at Board level a culture of infighting and friction existed. The Board was viewed as unable to cope with running a regulated business and the existing Board members were encouraged to step down.

Failed and recovered BME housing association inside London

4.3 INTERNAL FACTORS CONTRIBUTING TO SUCCESS

4.3.1 The performance of the Board

One of the most striking characteristics of the successful housing associations was the performance of the Board. These housing associations have Board Members which are self-reliant and well motivated, and with a very clear idea of their roles and responsibilities. They distinguish between their strategic function and the operational function of the business, and do not interfere with the latter. They provide Chief Executives with continual support, but not to the extent of directing their operational role.

The Higgs report Review of the role and effectiveness of non-executive directors (January 2003) regards effective and robust Boards as an essential feature of successful companies. It concludes that corporate governance provides architecture of accountability. That is the structures and processes to ensure that companies are managed properly. Non-executive directors are the custodians of this governance process. The Higgs report also stresses the fact that effective Boards depend as much on behaviour and relationships as on procedures and structures. The research upon which this review is based has reached the same conclusion.

Business planning and market research has been a key to the association’s success. Demand for its services is examined through research and analysis. The management team and the Board attend joint away-days on a regular basis, and a wide range of subjects is discussed, and the opportunity is taken to form good relationships between the Board and staff. The Board also benefits from being able to gain a better appreciation of what problems are currently being addressed by the Chief Executive and staff, and to develop a strategic response to
them. It is also the forum used for discussing the lessons learnt from the successes and failures.

**Successful BME housing association outside London.**

In successful housing associations people are the key to success, particularly Board Members, who are referred to as non-executive Directors in the Higgs Report. Critical to improving the effectiveness of Board Members, and consequently the success of a housing association, is raising the quality of the appointees. Whilst for many housing associations this is difficult, it should become an aspiration of all housing associations and a cornerstone of good practice. The housing associations which form the case studies in this review have a population of Board Members which, is in the main narrowly drawn.

Some successful housing associations assess Board skills on a regular basis. Some form of skills audit is used, and the missing skills are provided. Some have adopted themed Board meetings, in order to focus on specific areas of the business, and have allocated to Board Members specific areas of responsibility. This tends to mirror their personal or professional interest, skills or knowledge. There is a danger here of a conflict of interest with the collective responsibility of the Board. The evidence provided by this study showed no specific BME issues regarding the development of a ‘progressive’ board culture however the 80% rule governing BME association Boards is considered in section 4.5.1 in this report.

A good relationship exists between the Chief Executive and the Chair of the Board. As well as staff appraisals, Board appraisals are also carried out. The association regards this Board appraisal process as an important and integral part of the strategic management of the business. The contribution of individual Board members is examined, together with their effectiveness. The association also has clear rules about corporate governance.

**Successful BME housing association outside London.**

The Boards of these successful housing associations are also changing on a regular basis. Board members stand down by rotation to allow new Board members, with fresh ideas, to take their place. They are also careful to prevent Board members from pursuing particular areas of self-interest. Some successful housing associations provide observer positions on their Boards in order to introduce and train new Board members before replacing retiring members. This has the effect of providing a constant supply of informed members to the Board. The Boards of these successful housing associations tend to be progressive, and aware of the business environment and the regulatory arrangements of the Corporation in which the housing association operates. Many also have close associations with the local authorities in the areas in which they operate.

The association makes bids for new developments after consultation with the local authority, through a local housing market partnership. This is done in association with two other local housing associations. The association has a service level agreement for the supply of financial services to the local authority. The partnership for future development through the housing market partnership is not a formal arrangement with a contract, but it is an informal agreement that seems to have worked successfully so far.

**Successful BME housing association outside London.**

Whilst being a progressive Board is a significant reason for success there is no evidence about the underlying origins of this reason. This is a principle which has been described in section 4.2 and is outside the scope of this review. However, set out in recommendation 5.2 are the steps necessary to move towards a well-run progressive Board. There is no implication in this section that a Board which maintains a community focus cannot be progressive. There is no evidence to suggest that an emphasis on community work hinders the association from seeking external specialist skills in fact, as stated earlier, there was no correlation between an adherence to original purpose and the efficient management of the organisation. There was
also no correlation between the existence of founding members and the success or otherwise of the organisation.

The housing association has its own training programme for its staff and has achieved Investors in People. It has a good working relationship with the Corporation and its staff, who are supportive of its work. It seeks and receives guidance and advice from the Corporation when required and keeps it informed of progress. Staff of the association are well trained and motivated and subscribe to the housing association’s ideals. The association is committed to the continuous improvement of its services and has a plan of the best value reviews. It believes that it possesses the skills, knowledge and experience that can be used to benefit communities in new areas.

Successful BME housing association in London

4.3.2 The operational management of the association

Another key feature of successful housing associations is that they employ effective and competent management. They try to attract staff with broad life skills in addition to the specific technical skills which are required. They pursue positive and dynamic policies and make proposals to their Board on a regular basis to improve and enhance the performance of the housing association. There is a high level of staff commitment to the successful housing associations, and they are able to recruit staff on the strength of their reputation. Staff tend to leave for the purposes of career progression, rather than dissatisfaction with the organisation.

4.3.3 Training and development

All of the successful housing associations, both BME and non-BME, have positive and effective training and development programmes. These are supported and encouraged by the Board, and this provides a further motivation for staff.

Many have achieved Investors in People status. Training for Board members, either on a formal or informal basis, or using some form of mentoring, is also in place.

4.3.4 Group structures

Six of the 16 housing associations in the sample group had failed and joined a Group. The housing associations stated that they perceived a group structure brought advantages:

- Technical expertise from the parent body.
- Availability of central services such as, finance, human resources and training.
- Ability to obtain development funding through the Group that might not be available otherwise.

However, some major disadvantages were mentioned. These included:

- The complexity of the Group structure and the effect this has on governance.
- The cost of administering the arrangements.
- Lack of freedom to pursue opportunities of particular interest or concern.

The housing association regards itself as a resource centre for the Black and Afro-Caribbean community. Service providers and other agencies seeking links into the community have used the association as an information point. Recently, health agencies have worked with the association on specific health matters. This has come about largely because the association employs staff who display high levels of commitment to the community which they serve.

Failing BME housing association in London

4.4 EXTERNAL FACTORS CONTRIBUTING TO SUCCESS

The evidence suggests that many successful housing associations concentrate on a specialist market, with very little geographical dispersion. They have good working relationships with the local authorities in whose area they operate, and form a variety of partnerships with other
housing associations, not necessarily in their field. For example, some BME housing associations have formed loose working relationships with non-BME housing associations of a similar size to the benefit of both.

The empowerment and training of tenants is an important area for these successful housing associations. This often results in improving its local popularity, and enabling it to become a partner in other local developments.

Housing associations which had failed and then become successful have been able to turn the opportunities created by Supervision to their advantage. These housing associations have learned what is required of them from the Corporation, and have put it into practice. Some failed housing associations have achieved success and stability by joining a group. Those which have done this successfully have been able to convert failure to success and view change as an opportunity rather than a threat. Successful housing associations also regard change to their external environment as an opportunity to test new local markets and to improve their performance.

4.5 INTERNAL FACTORS CONTRIBUTING TO FAILURE

4.5.1 The performance of the Boards

A BME housing association has been defined since the 1980s as one which draws at least 80% of its governing body from BME communities. Board performance is a major contributory factor to the failure of many housing associations. The performance of these Boards, both past and present, leaves a lot to be desired. They had a poor grasp of their obligations and responsibilities, and were not effectively in control. These problems were compounded by a lack of understanding of the Corporation’s regulatory role and lack of acceptance of its responsibilities. Some members of these Boards have been in place since the formation of the housing association, regard it as their property and act accordingly. They also protest their freedom to pursue opportunities of interest to the community and to the founding principles of the associations. They are in the main resistant to change, and it is difficult for new members to join the Board. In many cases potential new members are not actively encouraged to do so. Often there is no competition for Board places, and the same members continue to be ineffective for a long time.

Although there is comprehensive tenant involvement throughout the running of the Board, intransigence that militates against change has the effect of inhibiting new tenants from joining the Board. The tenants who sit on the Board tend to belong to a group best described as the founders of the association. The Corporation is encouraging a new Board structure and it is hoped that changes will create a more transparent form of governance for the association.

Failing BME housing association in London

Some individual Board Members try to influence the housing association to suit their own personal circumstances, and others get involved in the day-to-day operational management of the organisation, sometimes with disastrous consequences. Some of these Boards are drawn mainly from the local community and may not have the business skills necessary to run growing and increasingly complex organisations within a regulatory framework.

Some of the failing housing associations also have huge difficulty in recruiting suitable Board members even when the desire of the existing Board is that this recruitment should take place. The evidence found in this study indicates that these Boards rely on a small pool of potential Board members, including their own tenants, and getting the right mix of skills and competencies is difficult, if not impossible. These Boards also have little competition for places and this also results in Boards unable to do the job for which they have been appointed. The inevitable result of this, in the small sample examined, was failure, and no distinction can be drawn between BME and non-BME association based on the evidence gathered. However there does exist a policy distinction between the two
types of association in this context and while no research was carried out specifically based on this point it is difficult not to speculate that the distinction must carry with it some effect.

Problems have been encountered in introducing training programmes for staff, and managers do not believe that the Board places sufficient emphasis on this. The association has not been awarded Investors in People, and there is no evidence that this is an issue which is being addressed. Managers feel handicapped in their efforts to grow the business, due to the unwillingness of the Board to accept change and move away from doing things the way they were done in the past.

Failing BME housing association in London

The May 1998 Black and minority ethnic housing policy produced by the Corporation states that “BME RSLs draw at least 80% of their governing body from BME communities”. While this stipulation does not mean that a high standard of Board members cannot be recruited, and indeed there is evidence to show that associations can operate within this rule and produce extremely vibrant, forward-looking Boards, the rule does necessitate BME associations drawing members from a smaller pool of candidates than non-BME associations. As the operation of the Board is absolutely crucial to the well-being of the organisation it could appear contrary to the Corporation’s desire to be supportive of BME associations, to limit in any way, the recruitment potential for BME Boards. Further research into this area could prove useful.

All the reasons for failure referred to in this section represent some form of control failure. This is an important matter for all Boards and housing associations. Understanding the underlying origins of these reasons for failure is outside the scope of this review. With regard to the reasons for this control failure it has not been possible to make a reliable distinction between BME and non-BME housing associations. This is because non-BME housing associations, that exhibited this failure, represented a small proportion of a small sample.

To be effective, newly appointed Board Members need to build their knowledge of the organisation quickly to the point where they can use the skills and experience gained elsewhere, which they have brought to the housing association.

4.5.2 The operational management of the associations

The operational management of these failing housing associations is likely to be a direct result of the failure of the Board. It is very difficult for even competent managers to be successful in these circumstances, and only less competent managers are retained for any length of time by these housing associations. Many produced poor business plans, only to have them rejected by the Corporation and the culture of infighting and friction within some of the Boards left the operational management of the association in a difficult, if not impossible, position. Some had also decided to pursue the delivery of non-housing services, an area in which many had no expertise, and often made inappropriate investment decisions. The inevitable consequence of this management action, or inaction, is to be placed in Supervision by the Corporation.

Understanding the underlying origins for these reasons for failure is also outside the scope of this review and the distinction between BME and non-BME housing associations. This is for the reasons given at the end of section 4.5.1.

In the past, the housing association experienced considerable operational difficulties, and was placed in supervision by the Corporation. These problems were largely attributed to the performance of the Board, and the culture of the infighting and friction that existed. The Board was viewed as incompetent and unable to cope with running a regulated business. The existing Board was replaced together with the Chair. The new Chair has a strong and enthusiastic personality which has helped the recovery process. The Corporation was similarly forceful in its approach. In turning around the performance of the association from failed to recovered, the association has undoubtedly become
an attractive place to work. Strengthening the Board and the management team has assisted in this development. Part of this success has been attributed to the enthusiasm and ability of Corporation staff.

Failed and recovered BME housing association

4.5.3 Training and development

All of these failing organisations, or those which had failed, had during the period of failure no training and development plan in place. For some, the Board provides no support for training programmes, and the effect on staff morale and competence is often in evidence resulting in eventual management failure. Some looked back to the past when the Corporation provided support for training Board Members, although this support was limited. The Corporation stopped doing this many years ago to concentrate on its core functions but many still presume that the Corporation could still do this, and if it does not then it should. The perception still persists with a few associations that the Corporation provided more support for direct training of Boards than it actually did.

4.6 EXTERNAL FACTORS CONTRIBUTING TO FAILURE

In-house development

Some housing associations which failed were those which expanded too quickly into what were perceived to be attractive markets. They often grew without the management strengths to manage the circumstances in which they found themselves, and the Boards of these housing associations were unaware of the risks which were being taken. There was no evidence of risk assessments being made. High land and construction costs seemed to take some by surprise, and this again is a direct result of Board failure and inappropriate management advice.

Development with a partner

Many enter into development programmes with development partners, some of which are of no benefit to the housing association.

Comments relating to high land and construction costs also relate to these developments.

During the course of the review no evidence was provided relating to any other material external factors contributing toward failure.

4.7 THE ROLE OF THE HOUSING CORPORATION

The Corporation acknowledges that the BME housing associations have a role as specialists with intimate knowledge of their part of the housing sector, and many non-BME housing associations have as well. The Corporation has no policy on the minimum size for a viable housing association. There are over 400 in London with less than 250 units, but only a few of these are growing. The Corporation’s view expressed at interview was that those housing associations with more than 250 units are better placed to grow at a substantial rate than smaller organisations. These smaller housing associations also have a reduced regulation regime and visits, unless the Corporation detects major problems.

The Corporation has also been instrumental in persuading some failing BME housing associations to join a group. This was done in specific circumstances and to address pressing problems. These included the need to preserve financial viability and therefore protect tenants and the public investment. It was also done to improve the quality of governance, management and control. Sometimes it was to address both these factors.

The Corporation initially provided additional support to BME housing associations in the form of a series of five-year strategies. These are:

■ The first The Five Year Programme from 1986 to 1991 concentrated on promoting the development of new BME housing associations.

■ The second An Independent Future from 1991 to March 1996 concentrated on
growing the existing BME housing associations.

■ In 1998 a statement of policy was issued for all associations but which also consolidated the previous strategies for BME associations. This policy effectively placed BME associations within the wider context and addressed BME customers in all associations irrespective of the type of housing association. This policy also emphasised that one reason for the Corporation supporting BME housing associations was because they were able to demonstrate BME leadership.

■ Starting in 2003 the Corporation is to allocate £15m of grant funding over three years to assist BME housing associations threatened by the need to meet the 2012 rent restructuring targets. The main purpose of this aid package is to protect the long-term financial viability of BME housing associations.

The Corporation’s regulation and supervision arrangements have changed in the last five years. In 1997 the Corporation published the Guide to the regulation of registered social landlords. This summarised the principal powers then in force and applied at the time. This form of regulation applies to many of the sample BME and non-BME housing associations which form the subject of this review. The main features of this regulatory regime were based on a supervision system applied to housing associations which had failed to meet the performance standards specified. There were three broad categories. These were:

■ Observation cases, which applied to housing associations which had failed to meet the performance standards in some respect, usually in one of the functional standards, but were regarded by the Corporation as short-term problems.

■ Supervision cases, which applied to those housing associations with serious failures, usually in one of the key standards, where the Corporation made direct intervention to agree a resolution strategy with the Board.

■ Registration and Supervision Committee cases, which applied when the Corporation felt it necessary to use its statutory powers or where there were sector-wide issues involved.

In these serious cases the Corporation has a range of statutory powers including:
- Making appointments to governing bodies
- Instituting an inquiry into the affairs of the association
- Intervening in cases where insolvency threatens the association
- Refusing to allow rule changes
- Refusing to permit stock transfers between associations.

The Corporation has changed its approach to regulation as a result of a fundamental review. The main change in terms of supervisory action has been to remove the observation category. These changes have been introduced during the last 12 months and the new Regulatory Code has applied from 1 April 2002. Under the current supervision arrangements a housing association is placed under Supervision if in the judgment of the Corporation it is significantly under-performing against the provisions of the Regulatory Code. Supervision status, and whether this is at intervention or enforcement level, is determined primarily by the gravity of the problems in each case. Supervision takes two forms. These are:

■ Intervention status, which applies to housing associations where serious concerns have been identified, and where the Corporation believes that an arrangement can be reached to deliver the action necessary to remedy the problems within an acceptable timescale.

■ Enforcement status, which applies to housing associations where serious concerns have been identified, and the Corporation believes that either the housing association is unwilling or unable to deal with them satisfactorily, or the case
raises matters of wider concern to the Corporation. Enforcement cases generally involve the use of the Corporation’s statutory powers.

All the references to Supervision referred to in this review use the 1997 guidance and definition on Supervision referred to above. There are no examples in this review of the 2002 arrangements being applied.

4.8 THE FINANCIAL HISTORY AND EFFECT OF PROPOSED CHANGES

4.8.1 General

This review has shown that the financial challenges faced by similarly sized BME and non-BME housing associations are essentially the same. The majority of BME housing associations are small and well placed to serve their communities. From a purely financial perspective they are always likely to be in a disadvantageous position compared with larger housing associations, because they lack economies of scale and must by definition have weaker covenants.

Of the housing associations reviewed in depth, four face Corporation Tax liabilities. Of these, two are actively planning to obtain charitable status in order to avoid these costs, one decided to retain its non-charitable status and the other was undecided. In this sample Corporation Tax is no more of a problem to BME housing associations than non-BME housing associations. Smaller housing associations with non-charitable status would not necessarily have had the resources to investigate ways to avoid Corporation Tax when grants under section 54 of the Housing Act 1988 were abolished. There is no available evidence to suggest that the abolition affected BME housing associations more than non-BME housing associations.

As part of the financial analysis, the formation dates of the housing associations were considered. This was to test the idea that those associations that had been able to develop more of their housing stock prior to the introduction of mixed funding, (i.e. public and private finance) would have a greater asset base for raising private finance and lower rents.

4.8.2 The ability to develop and raise private finance

Most BME housing associations were originally formed to develop their own property. It is not surprising therefore that the evidence gathered from this sample indicates that BME housing associations are more likely to undertake their own development than other small associations. This generalisation may not hold true across the whole sector because of the small sample size.

The ability to raise private finance appears to be the same for BME and non-BME housing associations. It is not known if there are any differences in the cost of borrowing.

4.8.3 Major repairs

The HACAS Chapman Hendy 2002 report *The Effect of Rent Reforms on BME Registered Social Landlords* found that it was difficult to assess the extent to which the impact of rent reforms was any more significant to the BME sector than small associations or those with recently developed stock. That report did note that BME housing associations have tended to have higher rents and to carry higher unit costs, so consequently may be more at risk of not complying with the rent restructuring requirement of the Government.

For the housing associations with rents above target, achieving convergence will be financially challenging and different levels of planning are being undertaken to address this by the housing associations in this sample. In general the movement towards target rents is slow. This is, in part, because housing associations have 10 years to achieve target rents. The reference to the new Corporation grant to assist with rent restructuring problems in sections 4.7 and 4.8.4 refers to this.

In addition, BME housing associations have tended to develop a higher number of large properties to meet the needs of the
communities they serve. Under the rent restructuring regime the target rent for properties with four or more bedrooms is constant, making larger units uneconomical. This was referred to by two of the BME housing associations in the sample.

This sample has largely borne out the conclusions of the HACAS Chapman Hendy report, that there is no particular difference between the position faced by BME and non-BME housing associations on rent restructuring. However planning for rent restructuring is poor in some of the sample housing associations.

4.8.4 Rent restructuring

All but one of the sample housing associations have had Stock Condition Surveys carried out. All the associations which had carried out a Stock Condition Survey reported that the refurbishment work required by the survey is either not planned to start immediately or will initially start at a slow rate and build up over time. The main reason given by both BME and non-BME housing associations is the financial constraints, caused by the imposition of rent restructuring. One housing association has cash flow problems caused by housing benefit delays, which is preventing planned maintenance works be undertaken. However, the stock is believed to be in good condition and therefore able to withstand a delay in the major works programme.

The need to both carry out Rent Restructuring and meet the Decent Homes Standard places a financial strain on all housing associations where rents are above the target rent. For BME associations with a high proportion of more recent stock, meeting the decent homes standard ought to be less of a challenge than for more traditional housing associations. This situation should be alleviated by the introduction by the Corporation, this year, of the grant referred to in section 4.7.

It is not clear why planning for rent restructuring is a problem for some small housing associations, other than perhaps a lack of staff resources. However many BME housing associations do develop larger properties to specifically serve their community. As rent restructuring calculations were not differentiated for properties of four bedrooms and above some BME associations have been disproportionally affected. This, coupled with the tendency for BME associations to start from a higher rent base, will obviously affect their performance within rent restructuring. No specific evidence was collected to support an opinion in this area other than anecdotal evidence.
5. RECOMMENDATIONS

5.1 INTRODUCTION

These recommendations aim to address the reasons for failure described in section 4 and in the Case Studies in section 7. They also draw upon the reasons for success and use these as examples of good practice. These recommendations are applicable to all BME housing associations in the sample and are also applicable to the rest of the housing association sector.

5.2 THE ROLE OF THE BOARD

1 Adopt and implement the Higgs report *Review of the role and effectiveness of non-executive directors* in a way proportionate to the size of the association, adopt the proposed code of practice, and in particular adopt the following principles:
   - Every company should be headed by an effective Board. The Board is collectively responsible for promoting the success of the company by directing and supervising the company’s affairs.
   - There are two key tasks at the top of every company, that is the running of the Board and the executive responsibility for the running of the company’s business. There should be a clear division of responsibilities at the head of the company which will ensure a balance of power and authority such that no one individual has unfettered powers of decision.
   - There should be a formal, rigorous and transparent procedure for the appointment of new directors to the Board.
   - Boards should evaluate their performance.
   - All directors should be required to submit themselves for re-election at regular intervals and at least every three years subject to continued satisfactory performance.

2 The Board should be representative of the community served.

3 The Board should ensure that monitoring procedures are in place and that they receive regular management reports on all aspects of the business.

4 The Board should adopt the following key elements from the Higgs Report on the role of Board members:
   - **Strategy:** Board members should constructively challenge and contribute to the development of strategy
   - **Performance:** Board members should scrutinise the performance of management in meeting agreed goals and objectives and monitoring the reporting of performance
   - **Risk:** Board members should satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible
   - **People:** Board members are responsible for determining appropriate levels of remuneration of executive directors and have a prime role in appointing, and where necessary removing, senior management and in succession planning.

5 All potential new Board members should undertake initial training before taking up their position. This may be done by developing observer or shadow roles for potential Board members. The training should cover:
   - The role of a Board member including a clear understanding of the responsibilities which are attached to the role and their personal liabilities.
   - The role of the Corporation and its legal obligations and requirements.
   - The requirements of funding organisations.
   - An awareness of the business environment and the factors which contribute to running a successful business.
   - Similar training should be repeated by all re-elected members within three months of
re-election otherwise their right to vote at a Board meeting should be withdrawn until such time as the training is completed.

6 The Corporation should reassess the requirement that BME associations should draw at least 80% of their governing body from BME communities.

5.3 MANAGEMENT AND DELEGATION

Successful businesses are invariably led by committed, positive and dynamic leaders who make things happen. In addition there must be a good working relationship and trust between senior management and the Board. Management must also be competent at their jobs and provide the Board with appropriate, technically sound advice.

It is recommended that:

1 Senior management staff should hold appropriate professional qualifications or have at least five years’ experience in the discipline in which they are being appointed, and be trained in organisational management. In the case of a Chief Executive this would mean five years’ experience of running a complex mixed funded organisation, managing senior staff and delivering agreed goals.

2 Senior Management should develop a financially sound Business Plan for Board approval.

3 Monitoring reports should be presented to the Board on a regular basis covering all performance issues and measured against the Business Plan.

4 Senior management should be given delegated responsibilities. In line with good practice this delegation should be formalised through regulation or standing orders and regularly reviewed by the Board.

5 In particular reporting systems must require expenditure to be reviewed independently of those responsible for their preparation.

6 In particular if the Board delegates responsibility for monitoring risks to senior management then it should receive regular reports which will enable it to check that the function is being effectively discharged.

5.4 PEOPLE, RELATIONSHIPS AND TRAINING

Staff must be qualified to undertake the job for which they are employed. It follows that successful housing associations are businesses where both staff and Board members have the drive and commitment for what they are doing and the people they serve, and the knowledge and competence to deliver it.

It is recommended that:

1 The training needs of all staff should be identified and appropriate training and development given. Senior management must ensure that a Training Plan is prepared and approved by the Board.

2 Annual reviews of staff should be undertaken to identify training needs, to review performance and to set future targets.

3 The principles of continuing professional development should be adopted.

5.5 STRUCTURES

Entering into a Group structure has much to recommend it for small housing associations. It is acknowledged that some of the disadvantages of joining a Group structure referred to in section 4.3.4 may be unavoidable. This is particularly so when it is the only thing which will prevent the housing association from ceasing to exist.

It is recommended that:

1 Clearly defined relationships, responsibilities and guarantees of independence should to be agreed and set out at the start.
2 Financial arrangements, commitments and support processes should be identified.

3 Responsibilities at management and Board level should be clear, together with representation on each other’s Board.

4 Larger housing associations should not see Group structures as a means to attract small housing associations and then absorb them at a later date. The independence of the housing association joining a group should be clearly set out at the start.

5 In a non-BME Group, a BME housing association that has developed skills and expertise with BME communities should provide BME-based generic skills and knowledge to the group.

6 Non-BME Groups should use the generic skills and knowledge referred to in recommendation 5 to ensure that they have the cultural knowledge to deliver services and to recruit and develop Board members and staff.

5.6 PARTNERSHIPS

Where a small housing association either does not want to join a Group structure or cannot find a suitable Group to join, working in partnership with other housing associations can provide some of the group structure advantages. Working in partnership in this way will allow specialist professional skills to be available to all the housing associations in the partnership. This could include areas such as:

- Housing Management
- Finance
- Human Resources
- Training
- Development
- Legal

These can be provided either by the professional staff being employed by one of the partners, but made available to all, or by buying in the services of appropriate consultants.

5.7 GEOGRAPHICAL DISPERSION

Trying to service housing stock over a large geographical area is generally inefficient and reduces the quality of service to tenants, particularly those of small housing associations. This problem is not of course confined to BME housing associations. Some form of management agreement with a housing association local to the housing stock would give a better service to tenants and reduce cost. Alternatively stock should be transferred to a local housing association which would enable some small housing associations to grow whilst at the same time giving tenants a better service.

5.8 OBSERVATIONS ON THE ROLE OF THE HOUSING CORPORATION

The interviews with the managers of housing associations have presented a good opportunity to reflect upon the role of the Corporation. It is clear that the current regulation framework, although fairly demanding for some housing associations, works well.

As discussed in detail in section 3.4.2 this review does not produce evidence for a change in the regulatory framework specifically for BME associations. In fact evidence exists that BME associations can fulfil their specific role within
the context of the Corporation’s regulatory framework, and the requirements of running a successful, progressive business. Equally non-BME associations can find the regulatory framework difficult. The review showed that neither size, origin nor location affected performance.

However, regulation as a whole could be reviewed in the following particulars. When Supervision is decided upon the action should be positive, and given as a directive with realistic timescales being agreed for appropriate action to be taken. The past and current Supervision arrangements are described in section 4.7. The current sanction of withdrawing grants should continue to be used. Corporation staff should be clear about the actions necessary when they are of the opinion that individuals or groups of Board members or senior staff are the problem. The Corporation’s practice of making Board appointments is appreciated.

A clearly discernible desire for some development in the Corporation’s role also became apparent throughout the interviewing process.

Following failure of the housing association and the appointment of a new Board and Chair, the association has recovered. The Corporation was regarded as being forceful in its approach in this process, and the success of the Corporation’s input was described as a testament to the quality and ability of individual Officers. However, it is felt that the Corporation could have taken a more proactive approach. It believes that the Corporation did not provide enough support and guidance during the supervision period and had this been the case, recovery might have taken place sooner.

Failed and recovered BME housing association inside London

The following comments are an interpretation of various statements made at the interviews.

It is clear that where housing associations have had problems in the past that have now been resolved this has often been due to the advice, help and assistance of individual Corporation staff. This role is highly appreciated by housing associations and should be encouraged in addition to the formal regulator role. Various options exist for developing this role, which include:

- Information gathering and best practice visits.
- Increasing the circulation of information on group structures and partnership arrangements as a matter of course for all housing associations.
- Intervention in Board membership at a very early stage as a positive move rather than after a negative assessment.
- Offering frequent and high quality training to Board members and requiring participation.

The latter two options reflect the view that the role of Board members in determining the success or failure of any housing association is significant. They also envisage a change in the role of the Corporation from a purely regulatory one towards that of a helpful advisor. This would be a major change in direction for the Corporation bringing with it financial implications, and an impact on the number of officers required and their skills.

The fact that such a role was considered desirable by most of the associations taking part in this review, however, does lend weight to the option. There has been no detailed work done in this area and the following are some of the matters which should be investigated to assess properly the proposal:

- The relationship between an advisory body and the operation of the Corporation’s regulatory objectives.
- Refinement of the role of an advisory body.
- The extent to which an advisory body would be welcome across the sector.

Investment in the personal and technical development of Board members will have
considerable benefits for the sector as a whole and any directives issued should include requirements that Board members attend appropriate training courses.

The Corporation's regulatory objectives include promoting high quality governance, probity and the reputation of the housing association sector. This objective is pursued most obviously in two instances: one is at registration of a new association, and the other is during assessment when the Corporation's lead regulators primarily concern themselves with issues of governance.

All the evidence gathered throughout this review indicates that this aspect of registration and regulation is of primary importance and needs to be prioritised accordingly, and should form a significant part of the regulatory plan.

Throughout the interviews an appeal for the provision of help, advice and assistance was clearly made by many housing associations. The Corporation’s role was appreciated but a desire to see this role develop into that of a helpful advisor rather than just a regulator was apparent.