group dynamics

group structures and registered social landlords

November 2001
The Housing Corporation
working to improve
people’s quality of life
through social housing

The Audit Commission
promotes proper
stewardship of public
finances and helps those
responsible for public
services to achieve economy,
efficiency and
effectiveness
group dynamics

1 The development of group structures – an overview
Regulation, tax efficiency, a desire for growth and the need to organise diverse activities effectively have led RSLs into group structures.

2 The financial costs and benefits of moving to a group structure
Financial benefits can include reduced tax liabilities and economies of scale; but there are set-up, transitional and ongoing costs that may outweigh these, and economies of scale are not automatic.

3 Using groups to promote stock growth
Some RSLs have used a group structure to promote stock growth, both by encouraging existing RSLs to join a group and by attracting transfers from local authorities.

4 Using groups to promote or manage diversification
Groups may be necessary for RSLs to carry out certain activities. They are also a tool for managing and governing diversity.

5 Accountability issues for groups
RSLs should involve tenants, communities and funders in decisions to set up groups and in future accountability arrangements. Internal accountability between group members is also important.

6 Group regulation
Groups need to consider the appropriateness of different legal statuses and regulators. Better planning could make registration easier.

7 Conclusion
Groups are rarely a requirement and no one structure is best. Clarity on desired outcomes is more important than structures.
The popularity of groups is growing, and the way many new groups are organised is changing.

Preface

The way that the housing association sector organises itself is changing rapidly. Housing associations, referred to in this report as registered social landlords (RSLs) are individually registered by the Housing Corporation. Their performance is monitored at the level of individual organisations. But three-quarters of all RSL homes are now part of a formal ‘group’ of two or more organisations; one-half are part of a group that contains at least two RSLs [BOX A]. The popularity of groups is growing, and the way many new groups are organised is changing. The most recent registration figures show that the Corporation registered more groups in 2000/01 than new RSLs.

Groups cost money to set up and to run, and any change from one organisation to another absorbs time and energy. When an existing RSL joins a group there is a loss of some of the flexibility and independence enjoyed by an individual organisation. This report looks at why groups are nevertheless popular among RSLs, and why the kind of group structure that is adopted varies. It investigates whether groups deliver the benefits hoped for by those who decide to set them up, and whether there are clear benefits to tenants or external stakeholders (such as local authorities and lenders) that outweigh the acknowledged costs of group arrangements. It considers whether RSLs not in a group can deliver the same benefits, and whether current systems of accountability and regulation work for increasingly complex group-based relationships.

BOX A

What is an RSL group?

A group is a formal association of separate organisations. Each organisation has to produce annual audited accounts; there will also be consolidated accounts for the group. One organisation is the ‘parent’, with ultimate legal control over the other ‘subsidiary’ organisations. The parent must be a registered social landlord.

There is a legal definition in the Housing Act 1996 (Ref. 1).

Source: Audit Commission

1 The 1996 Housing Act introduced the term ‘registered social landlords’ to include existing housing associations and other bodies providing social housing (eg, local housing companies) operating on a not-for-profit basis, that were registered by the Housing Corporation and eligible for public subsidy for housing purposes (Ref. 1). Registered social landlords (RSLs) is the term used in this report.
Groups set up for one reason have changed and developed as a result of both internal decisions and external regulatory and financial pressures.

Some RSLs have been part of a group for many years; others have reorganised their activities into a group structure or joined a group only recently. Groups set up for one reason have changed and developed as a result of both internal decisions and external regulatory and financial pressures. The trigger for a change can be a specific local event – for example, the retirement of a chief executive – or an unexpected local opportunity, such as a local authority decision to transfer some or all of its stock. Behind these individual triggers are four main drivers that have encouraged the majority of larger RSLs to set up a group or have prompted existing groups to reorganise:

- aspects of the regulatory regime;
- changes to the tax system;
- a belief in the potential of groups to promote growth, by acquiring more stock or by increasing flexibility and/or turnover from diversifying into activities other than social rented housing; and
- the opportunity to use group structures as a way of organising and managing geographically or organisationally diverse activities.

Chapter 1 looks at these drivers and identifies the current pressures for continuing change. The second part of the chapter looks at how groups are currently organised, and at why a number of new and reorganised groups are moving to a structure where the parent is not the dominant partner and stock owner. Chapters 2, 3, and 4 look in more detail at the reasons RSLs give for setting up, joining or altering group structures, and at whether the structures chosen deliver the desired outcomes. At the end of each chapter there is a summary of ‘critical success factors’ for managers to consider if they want to achieve particular outcomes.

RSLs are accountable to, and provide services for, tenants, communities, and public and private funders. Groups also have choices about preferred relationships between individual group members and the group parent. Chapter 5 looks at internal and external accountability in RSLs and groups. As regulator and funder, the Housing Corporation has an interest in accountability and in promoting cost-effective practice. Chapter 6 considers registration, regulation and the role of the Housing Corporation. The final chapter summarises learning points from the whole report.

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1 ‘Diversification’ in this report relates to all activities other than providing social rented housing.
The report builds on earlier work done on group structures (Ref. 2). It is based primarily on evidence from the Housing Corporation’s regulatory and statistical returns (RSR), performance indicator databases and 14 detailed case studies. The Commission would like to thank all who gave their time and knowledge freely. The study team benefited greatly from the advice and guidance offered by its advisory group (Appendix 1), together with the insights of many others involved in housing. The Housing Corporation allowed extensive access to the data they hold, and the Commission would in particular like to thank Tony Cox for his support and help. This report would not have been possible without the willing participation of staff, board members and tenants in the 14 case study groups, listed in Appendix 2.

The Commission was assisted in research design, literature reviews, data analysis and case study work by John Reading, Brian Matthews and Zoe Littleton of CVS consultants and David Mullins, Pat Niner and Chris Mackay of the Centre for Urban and Regional Studies at Birmingham University (CURS). The Commission is particularly grateful to David Mullins of CURS for initial report drafting. The Commission is also grateful to all those individuals who commented on the drafts of this report. As always, responsibility for the conclusions remains solely with the Commission.

The project was overseen by Roger Jarman from the Commission’s Housing Inspectorate, with a significant contribution from Gill Green, and additional help from Kevan Forde and Nic Rattle from the Audit Commission’s Public Services Research Directorate, under the overall direction of Greg Birdseye.
The development of group structures – an overview

Regulation, tax efficiency and a desire for growth are the historical drivers behind the development of groups. Groups are also used as a way of organising and governing diverse activities. The way groups are structured, and the dominance of the group parent, vary.
What is an RSL group, and how many are there?

1. An RSL group is an association of separate organisations that enter into formal agreements to work with each other. It can be identified through both legal documents and the need for separate and consolidated annual accounts. While the formal and informal relationships between group members will vary, all groups have a formal group ‘parent’ with ultimate legal responsibility for the group. Housing Corporation guidance requires that the parent must be an RSL; there may be any number of subsidiaries, which may be RSLs but can include other bodies that are not registered with the Housing Corporation (Ref. 3). The activities of the subsidiaries do not have to be directly related to managing or building social housing.

2. RSLs intending to set up or join a group, or amend the existing relationships between a group parent and its subsidiaries, have to gain permission from the Corporation’s registration section. Setting up a group is not the same as merging two or more RSLs, although a merger may result in the creation of a new group arrangement. With a merger, two or more RSLs join to become one, and there is a legal process known as ‘transfer of engagements’ covering the transfer of assets and responsibilities to one RSL. With a group, member organisations retain a clearly separate legal and financial identity within a group structure. Sometimes the two processes may be combined, with transfers of engagements preceding the formation of a group structure.

3. There are over 2,000 RSLs, but most are small organisations. Twelve per cent of all RSLs own 90 per cent of all RSL homes. This report concentrates on RSLs that own at least 250 homes each, or are part of identified groups owning more than 250 homes. By April 2000, three-quarters of the stock of these RSLs was in some form of group structure, although not all organisations formally classified as members of a group would describe themselves in these terms. Some have only one stock-holding RSL in the group. Many of the subsidiaries in these groups are small, with the ‘group’ still functioning mainly as a single organisation. Over one-half of the stock was part of a group that included more than one stock-holding RSL. These more mixed groups were more likely to be clearly organised along group lines [EXHIBIT 1, overleaf].
The pattern of stock holding within group structures

By April 2000, over one-half of the stock of larger RSLs was part of a group that included more than one stock-holding RSL.

Source: Housing Corporation data (at 31 March 2000)

4. The number of organisations in each group and their purposes can vary (BOX 8 and Appendix 2), and a few groups have a large number of registered subsidiaries [EXHIBIT 2]. However, almost two-thirds have only two or three members, and only one-fifth have more than five members. Registered subsidiaries are not always still ‘active’, and this is especially true of some of the small registered subsidiaries in the multi-member groups.

BOX 8

The kind of organisations that are found in groups

Where there is more than one RSL in a group, the additional RSL(s) will often operate in different geographical areas, or one or more may be a ‘specialist’ RSL, for example in housing older people, or having a particular black and minority ethnic (BME) management and focus. For example, Sanctuary Housing Association has a separate subsidiary that operates within Scotland; Amicus group includes as subsidiaries a supported housing RSL and an almshouse; Prime Focus Group includes Black Star, a specialist BME subsidiary.

RSL groups also allow diversification into activities that are outside rented social housing. Groups often contain separate organisations that are not RSLs but were set up to deliver other housing and housing-linked services, such as shared ownership, market renting, leasehold management, foyers, home improvement agencies or building companies.
They may include companies or charities delivering non-housing services – especially care services – but also other activities such as skills training. Small charitable companies that raise funds and give out local grants are also common.

Non-active subsidiaries are legally registered subsidiaries that, in most cases, did carry out activity in the past but no longer have any significant turnover. Many were set up for a specific purpose that has since ended or were under a time limited scheme that has ended. (For example, the Business Expansion Schemes promoted by the Government in the 1980s). Current registration details do not explain the purpose of each subsidiary within a group.

Appendix 2 lists the subsidiaries of the 14 groups looked at in detail for this report. This illustrates the wide range of activities that may be delivered by groups and their members, and the continuing changes to group membership that can occur over even a relatively short period of one year.
Historically the two most important influences on the development of group structures have been decisions made by regulators and changes in the tax system applying to RSLs and their associated subsidiaries. Group structures have also been seen as a way of improving the prospects of growth for individual RSLs, both by increasing the amount of housing stock owned and managed within a group and by allowing greater diversification into other social businesses. Finally, some RSL senior managers and board members see group structures as a convenient way of organising the results of growth. They provide a legal and financial framework for organising diverse activities and/or geographically separate operations [EXHIBIT 3]. These drivers overlap; for example, tax efficiency and growth can both be seen as ways of obtaining lower unit costs. The relative importance of any one influence will vary between organisations, and groups change over time to reflect changes in their environment.

EXHIBIT 3
WHY DO RSLS SET UP OR JOIN GROUPS?
There are four main drivers that have led the majority of larger RSLs into groups or prompted existing groups to reorganise.

Source: Audit Commission
The influence of regulators

6. All RSLs are regulated by the Housing Corporation; they may also be regulated by the Charity Commission, the Registrar of Friendly Societies and, if companies, by company law. Regulators may limit the breadth of activities that an RSL can carry out. Where an RSL wishes to deliver additional services that it believes will be of benefit to existing tenants or other groups in need, it may have to set up a separate subsidiary organisation that does not come under the control of the same regulator. For example, in 1984 the Housing and Building Control Act introduced the possibility of shared ownership (Ref. 4). A number of RSLs saw this as an opportunity to expand, and to offer low cost home ownership as an alternative to existing or potential tenants. However, at the time, it was unclear whether the Charity Commission would class the development of shared ownership homes as a charitable activity. So charitable housing associations wanting to develop these homes often set up a separate, non-charitable subsidiary.

7. The Housing Corporation’s view of preferred RSL activities has also changed. *Regulating a Diverse Sector* allows a wider definition of social housing than before, but still signals that the ‘principal object of an RSL should be to provide social rented housing’ – which is a more tightly defined activity (Ref. 5). Activities that fall outside the Corporation’s definition of social housing can be undertaken – but should not form the majority of business. RSLs have to notify the Corporation if non-social housing activities exceed five per cent of turnover or capital. RSLs are expected to notify the Corporation of all subsequent five per cent increases; a ‘control review’ of overall business direction and governance arrangements will be triggered when a ‘significant amount’ of an RSL’s business relates to non-social housing, or when there is a significant rate of growth in these activities. However, non-registered entities within a group are not subject to limits or controls as long as the group overall meets the Corporation’s policy requirements. These requirements can encourage RSLs to keep non-housing activity in separate, but associated, subsidiary organisations. It is easy to keep the financial percentages under review, and may make any reviews by the Corporation more straightforward.

1 Not defined, but one-third of turnover is suggested as likely to be appropriate.
Sometimes the pressure of regulation can be more direct. For example, English RSLs wishing to operate in Scotland and receive a grant from Scottish Homes can only do so via a Scottish subsidiary.

The Government also regulates RSLs, both directly and through controls set on local authorities’ links with RSLs. In 1999 the Government extended the ‘permissible purposes’ of RSLs to providing land, amenities or services to non-residents as well as to tenants, and to engage in regeneration activities for their benefit (Ref. 6). The aim was to make it easier for RSLs to get involved in regeneration at a neighbourhood level, and to fit in with the Corporation’s new regulatory regime. This change made it less necessary for RSLs who wanted to get involved in such activities to set up subsidiaries and thus makes groups less necessary.

Other government requirements associated with local authority stock transfer have influenced the development of new groups. The Department of Transport, Local Government and the Regions (DTLR) and the Corporation control the transfer of local authority owned housing to RSLs. A current DTLR requirement is that no more than 12,000 homes should be transferred to one RSL. Authorities with significantly more stock have recently begun to transfer their housing to RSLs. They have looked for a way of working within the regulations that allows them to meet the 12,000 requirement while still holding only one ballot and putting together one financial package. In 2000, Tameside Metropolitan Borough Council transferred its entire stock of 16,361 homes to a specially created group after a single ballot. The group has a non-asset holding parent and two stock holding subsidiaries, each of which holds less than 12,000 homes. Similar group structures for large urban transfer plans are now popular and have led to large new group RSLs appearing; in 2001 Coventry and Sunderland transferred over 20,000 and 36,000 homes respectively into newly created groups.

So RSLs and local authorities have used group structures to comply with the requirements of regulators while still getting involved in other activities. In addition, the Housing Corporation has encouraged larger established groups, to support its work as a regulator. They have seen the potential for established groups to offer the help and support sometimes needed by RSLs that are in financial or management difficulties. This can be advantageous for the RSL and the group. In the past such RSLs may have been merged with a stronger organisation. Suggesting that instead a weak RSL joins an established group is an alternative that may be easier to arrange. It means the group can give considerable support while allowing the weaker RSL to retain a degree of identity and independence.
12. The Corporation is currently promoting a debate on the size and composition of RSL boards. This may also influence some RSLs to reorganise into or create a group structure that can include a smaller parent board, while retaining existing boards at subsidiary level.

**The influence of taxation**

13. RSLs have to comply with relevant company and tax law. Private companies amend organisational structures to maximise tax efficiency; RSLs, many of which are also companies, often do the same. One recent legislative change has been particularly influential. Non-charitable housing associations in England and Wales have lost the right to tax relief under Section 54 of the Housing Act 1988. As a result many RSLs set up or amended group structures to include a charitable member organisation and so reduce their liability for corporation tax (Ref. 16). Charitable RSLs or subsidiaries can also take advantage of laws that promote charitable giving through ‘gift aid’. Group structures can sometimes reduce a group’s liability for VAT, especially important in building repair work. There are thus a number of regulatory and associated tax influences that have led to RSLs setting up some form of group structure [BOX C].

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**BOX C**

**Regulatory and associated tax influences that have led to group structures**

- **Charity Commission views** on charitable activities led to:
  - ✓ non-charitable subsidiaries to enable shared ownership; and

- **Tax law** led to charitable entities set up in the 1990s:
  - ✓ to receive gift aided monies; and
  - ✓ to reduce any liability for Corporation Tax following the withdrawal of tax relief grant under Section 54 of the Housing Act 1988.

- **Relevant Housing Corporation circulars** on activities other than social rented housing.

- **Non-English regulators** with different requirements:
  - ✓ locally-based subsidiaries to operate in different jurisdictions (Scotland, Wales).

- **DTLR limitations** on maximum size of individual stock transfers:
  - ✓ group structures set up to take single ballot transfers above the 12,000 limit.

*Source: Audit Commission*

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I In England and Wales, the relief was phased out until 2000/01 when no grant was paid; in Scotland phasing out will not start until April 2002.
Improved prospects for growth through diversifying and increasing stock

14. Group structures set up as a response to regulation or to reduce tax liability are in the main the result of external pressure. RSLs have also moved into or amended group structures as a result of internally generated pressures for growth. Growth is generally assumed by RSL management to be beneficial to both tenants and staff. Tenants are expected to gain from predicted economies of scale and from diversification; the former is expected to help to keep unit costs down and so allow better service delivery; the latter may provide, for those who need it, access to more specialised staff and a more joined-up approach to their wider needs. Examples could be linking housing management and care, or providing skills training. A growing organisation can provide a wider range of challenges and job opportunities for staff. The assumption that growth will always benefit tenants and staff needs to be looked at carefully; tenant needs should take priority.

15. Some RSLs decide to directly provide care and support services needed by some of their tenants. This can mean diversifying into non-housing services. Diversification may also be seen as a way of making money to support an RSL’s main work.

16. Group structures are seen as a useful tool for growth through diversification. New non-housing activities, such as care and training, as well as specialist housing activities like development or market renting, can be placed in a separate subsidiary. Appropriate staff and board members can be recruited to run it. Where new business is inherently risky, either because there are potentially limited returns or because the RSL concerned has no track record in the area, some managers believe that putting the activity in a separate subsidiary also makes it easier to manage that risk.

17. Groups are seen as a way of encouraging stock growth in two ways. A group may attract as a new member another RSL that wants the benefits of a large organisation without having to lose all independence through a formal merger. There is also a belief that local authorities wishing to transfer stock, and tenants in prospective transfers, are more likely to select as a future landlord an RSL that will offer them the chance to remain as a distinct local housing organisation. This can be offered within a group structure.

18. There has thus been a number of drivers that link group structures and growth [BOX D]. Using groups as a vehicle for growth is considered in more detail in chapters 3 and 4.
Lastly, growth or diversification may itself lead to the setting up of a group or an amendment to the organisation of an existing group. A permitted but distinctive activity may begin in-house but grow to a point where separation seems appropriate. For example, a subsidiary may grow to become of equal importance to the group as the original parent, requiring a reorganisation of group management structures and intra-group member agreements. New senior managers may feel that governance structures set up in the past are no longer appropriate for the activities they now find themselves carrying out. Managers may also find that changes in regulation allow a group structure that was set up under an earlier and perhaps more restrictive regime to be simplified.

Changing group structures for managerial reasons is considered further in the second part of chapter 4.

These four main drivers behind the development of both new and revised groups have been influenced by, and must be set in the context of, historical changes to the regulatory and legislative framework and the increasing pace of stock transfers [EXHIBIT 4, overleaf]. More details are given in Appendix 3. The changes undergone by Keynote/Touchstone Group provide an example of how one group structure has grown and changed over the past 35 years [CASE STUDY 1, overleaf]. Change has been prompted by the group’s own desire to grow and diversify, but the structures adopted, and the timing of major changes, reflect the changing external requirements of regulators and the Government.

**A tool for management and governance**

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The development of group structures; major influences 1984-2001

The development of both new and revised groups have been influenced by historical changes to the regulatory and legislative framework and the increasing pace of stock transfers.

Source: Audit Commission
## CASE STUDY 1

The interaction of external requirements with internal aims in the development of a group’s structure

<table>
<thead>
<tr>
<th>Group aims (internal)</th>
<th>Structure of group</th>
<th>Key external influence(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Growth through diversity</strong></td>
<td><strong>COVENTRY CHURCHES GROUP</strong></td>
<td><strong>Regulation</strong></td>
</tr>
<tr>
<td>a) Shared ownership</td>
<td>Second housing association set up with same staff and board members as first, but non-charitable</td>
<td>Charity Commission (CC) view that shared ownership is not a charitable activity</td>
</tr>
<tr>
<td>b) Care</td>
<td>Additional subsidiary</td>
<td>Corporation and CC rules</td>
</tr>
<tr>
<td>c) Market renting</td>
<td>Additional subsidiary</td>
<td>Tax</td>
</tr>
<tr>
<td><strong>Stock growth via merger</strong></td>
<td><strong>NEW TOUCHSTONE GROUP</strong></td>
<td><strong>Regulation</strong></td>
</tr>
<tr>
<td></td>
<td>RSL parent, separate non-charitable RSL and market renting subs</td>
<td>Charity Commission rules still influence</td>
</tr>
<tr>
<td><strong>Cost savings</strong></td>
<td><strong>NEW KEYNOTE GROUP</strong></td>
<td><strong>Tax</strong></td>
</tr>
<tr>
<td></td>
<td>with non-asset holding parent</td>
<td>Withdrawal of Section 54 tax relief</td>
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<tr>
<td><strong>Tax efficiency</strong></td>
<td></td>
<td></td>
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<tr>
<td><strong>Economies of scale from further stock growth</strong></td>
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</tbody>
</table>

*Source: Research team based on discussions with Keynote/Touchstone*
Are groups always necessary?

21. Despite the past and current pressures on RSLs to set up some form of group structure, a significant proportion still believe that they can carry on their activities more effectively as a single organisation. Nearly one-quarter of the stock of larger RSLs is not in a formal group, and some RSLs that are the dominant partner in a legal group still act as single entities. These RSLs may have set up small subsidiary companies because of the regulatory pressures already discussed. However, they still think of themselves and these subsidiaries as a single organisation and organise themselves as such for most activities.

22. Managers and board members in these RSLs believe that senior managers in the dominant RSL should be the ones to keep a direct eye on risky activities. Separate companies may prevent these managers from intervening early enough in response to problems. They argue that tenants do not need separate local subsidiaries to exercise significant local control; they can do this via a devolved structure in a single organisation. And as the current regulatory system allows RSLs to carry out a wide range of diverse activities themselves, the requirement to set up separate organisations is now reduced unless the RSL wants to expand their activities significantly. Two of the RSLs chosen as case studies said at the time they were interviewed that they generally preferred not to set up subsidiaries, although both had done so in specific cases and, if necessary, would do so again. Their experience shows that there are often equally valid alternatives to group structures; the current fashion for groups should not blind RSLs to the positive aspects of single organisations.

The main ways in which RSL groups are organised

23. Three main types of group structure can be identified from the Corporation’s RSR database, based on which RSLs in a group hold any stock [EXHIBIT 5]:

- ‘original’ group structures, with only one stock-owning member RSL that is also the parent – most early groups were originally set up like this;
- ‘mixed’ groups, with a stock-holding RSL parent and one or more stock-holding RSLs among the subsidiaries; and
- newer structures where a non-asset holding RSL parent acts as a ‘strategic umbrella’ for all other subsidiaries.

There is wide variation in the ways RSLs and other organisations structure relationships within each kind of group.
Three main types of group structures can be identified...based on which RSLs in a group hold any stock.

<table>
<thead>
<tr>
<th>Parent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Holds no stock</td>
</tr>
<tr>
<td>Stock-holding</td>
</tr>
<tr>
<td>Original</td>
</tr>
<tr>
<td>Mixed</td>
</tr>
<tr>
<td>Umbrella</td>
</tr>
<tr>
<td>Stock-holding</td>
</tr>
</tbody>
</table>

Source: Audit Commission

### ‘Original’ and ‘mixed’ group structures

24. Often, the parent RSL has remained the dominant organisation in a group and continued to hold the stock, but set up smaller, non-stock-owning and possibly non-charitable subsidiaries. There are more of these ‘original’ groups than any other type; but on average they hold less stock. About one-quarter of all group stock is in this kind of structure. Many of these ‘original’ groups are organised as if all group members were part of a single organisation. Subsidiary organisations may have little freedom to determine policies and priorities of their own.

25. Some of these groups expanded over time to include a second or third RSL as part of the group. A smaller RSL might join the group, or a special subsidiary be created to take on stock transfer, or some stock might be reorganised into a distinct, specialist grouping providing special needs housing. Around one-half of all group stock is in one of these more ‘mixed’ groups. Relationships between members can be complex. A number of the ‘mixed’ groups also still act and organise themselves as far as possible as single organisations. The ‘founder’ parent is likely to be the largest RSL in the group, and to dominate group policy, but other organisations within it can be large and have distinctive policies of their own.
The ‘strategic umbrella’ structure

26. Some recently formed or reformed groups have adopted a different format. By March 2000, 15 per cent of the stock was in a structure where the group parent does not own or manage stock, but acts as a ‘strategic umbrella’ for the group members. This form of group structure has become very popular recently – eleven out of the twelve group parents registered in 2000/01 owned no stock. The ‘strategic umbrella’ structure is seen as especially appropriate for some circumstances:

• **Complying with requirements on stock transfer:** a group with a non-stock holding parent and two or more subsidiary RSLs with fewer than 12,000 homes each allows a local authority to meet the DTLR requirement not to transfer more than 12,000 homes to any one RSL.

• **Attracting other RSLs to join the group:** groups of this kind have been set up by RSLs previously outside any group and by existing groups that wish to grow. They believe that partners will be attracted to the apparently more equal partnership that is possible in such groups compared to those where the group parent is also a major stock-holder and clearly dominates.

• **Balancing influences at parental level:** where one or more subsidiaries in an existing group have grown, and perhaps become almost as important in size/turnover as the original parent, a reorganisation into an ‘umbrella’ structure with a newly constituted parent board can allow more appropriate representation of the different needs of all the major organisations within the group.

• **Holding together diverse but connected activities:** the ‘umbrella’ structure is seen by some managers as being particularly flexible and useful for an organisation that wants to diversify but still join up very different strands of activity at the top level to benefit particular neighbourhoods or communities.

The importance of individual preference and parental control

27. There are important differences between groups not picked up by this threefold division that cannot be established from the Corporation’s existing databases. One is the question of perception and preference; a second is the question of how dominant the parent is within the group:

• **Perception and preference:** under all three structures, there are examples where those involved think of themselves as a group – that is, as a federation of different organisations. Under all three structures there are also examples where those involved think of themselves as single organisations, and act as such wherever possible.
28. The 14 case study groups looked at in this report include examples of the three group types identified above (see Appendix 2, page 100). Two were in the process of moving from one structure to another when visited. However, among both the ‘mixed’ and the ‘umbrella’ groups were some that still thought of themselves as single organisations and acted as such. The dominance of the parent also varied significantly among groups of all types.

29. There is no consistent link between the amount of stock in a group and the structure, although groups with only one stock-owning RSL are more likely to be smaller. Umbrella groups set up specifically to allow a stock transfer of more than 12,000 homes are among the larger groups, but there are also smaller ‘umbrella’ groups [EXHIBIT 6].

**EXHIBIT 6**

The size of groups and their structural organisation

Groups with only one stock-holding RSL as parent are more likely to be smaller.

<table>
<thead>
<tr>
<th>Number of dwellings in group</th>
<th>Number of groups</th>
</tr>
</thead>
<tbody>
<tr>
<td>fewer than 2,500</td>
<td>50</td>
</tr>
<tr>
<td>2,500 - 5,000</td>
<td>40</td>
</tr>
<tr>
<td>5,000 - 10,000</td>
<td>25</td>
</tr>
<tr>
<td>over 10,000</td>
<td>10</td>
</tr>
</tbody>
</table>

**Key:**
- Original: stock-holding RSL parent, no stock-holding RSL subsidiaries
- Mixed: stock-holding parent and at least one other stock-holding subsidiary
- Umbrella parent

Source: Housing Corporation
What are the aims of those who set up groups – and do groups deliver?

...stated business cases may not always represent the main drivers behind a decision to change an RSL structure.

30. This chapter has highlighted the importance of regulation, tax efficiency and a desire for growth as the historical drivers behind the development of groups. It has not discussed whether groups delivered what was expected when they were set up. The next three chapters look at the benefits that RSLs expected from being in, or from setting up, a group structure; and at whether those benefits were realised. It is principally based on the 14 case studies. Performance indicators currently collected by the Corporation were also analysed but provided no statistical evidence that group membership makes a difference to unit costs or service delivery.

31. An RSL has to gain Housing Corporation approval before it can set up a new group or significantly amend a current group structure by changing the relationship between a parent and subsidiaries. In 1998 the Corporation introduced a requirement for a business case to be made with any such request. Regulatory guidance outlines the expected benefits. Because of the guidance all formal business cases tend to look quite similar, regardless of the organisational context in which they were developed. Most include expectations of cost savings and service improvements.

32. The standardised format means that the stated business cases may not always represent the main drivers behind a decision to change an RSL structure. Table 1 (overleaf) shows the two most important reasons behind setting up or amending a group structure given by officers and board members in the 14 case study groups. These were not necessarily those stressed in the business cases made.

33. These planned aims and whether they were achieved are looked at in more detail in the next three chapters. Chapter 2 looks at identifiable financial costs and benefits. Chapter 3 examines strategies for stock growth, and chapter 4 covers diversification and risk management.
**BOX E**

**Business case benefits suggested by the Corporation**

Housing Corporation regulatory guidance published in 1998 requires RSLs that are applying to set up a group structure to set out a business case outlining the benefits they expect. Suggestions include:

- improvements in service delivery to tenants;
- an improved asset base;
- increased capacity;
- the enhancement of stock investment programmes;
- lower overheads or improved efficiency;
- lower projected rents or rent levels;
- a change in risk profile and the ability to manage risk effectively;
- stronger boards; and
- the ability to recruit and retain better staff, and improved potential for staff development.

*Source: Housing Corporation (Ref. 8)*
The two most important reasons for setting up or amending a group structure were not necessarily those stressed in the business cases.

<table>
<thead>
<tr>
<th>Group</th>
<th>Primary purpose</th>
<th>Secondary purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Knightstone</td>
<td>Tax efficiency</td>
<td>Cost savings</td>
</tr>
<tr>
<td>Amicus</td>
<td>Growth</td>
<td>Diversification</td>
</tr>
<tr>
<td>Harvest</td>
<td>Growth</td>
<td>Merger and stock transfer</td>
</tr>
<tr>
<td>Keynote</td>
<td>Growth</td>
<td>Cost savings</td>
</tr>
<tr>
<td>Yorkshire</td>
<td>Growth</td>
<td>Merger</td>
</tr>
<tr>
<td>Longhurst</td>
<td>Stock growth</td>
<td>Stock transfer</td>
</tr>
<tr>
<td>New Charter</td>
<td>Regulatory requirement: to allow stock transfer of more than 12,000 homes via a single ballot</td>
<td>Management of risk relating to building company</td>
</tr>
<tr>
<td>Kelsey</td>
<td>Diversification</td>
<td>Management of risk; allows float-off</td>
</tr>
<tr>
<td>Portsmouth</td>
<td>Diversification</td>
<td>Management of risk relating to building company</td>
</tr>
<tr>
<td>Presentation</td>
<td>Diversification</td>
<td></td>
</tr>
<tr>
<td>Prime Focus</td>
<td>Diversification</td>
<td>Growth</td>
</tr>
<tr>
<td>East Thames</td>
<td>Management: clarify governance</td>
<td>Improve internal accountability/ management of risk</td>
</tr>
</tbody>
</table>

**Two groups organised more as single organisations**

<table>
<thead>
<tr>
<th>Group</th>
<th>Primary purpose</th>
<th>Secondary purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peabody</td>
<td>Growth</td>
<td>Stock transfer</td>
</tr>
<tr>
<td>Sanctuary</td>
<td>Growth</td>
<td>Regulatory requirement</td>
</tr>
</tbody>
</table>

Note: The two cases organised more as single organisations had not at that time adopted a group structure from choice, but had still set up some subsidiaries for very specific purposes.

*Source: Research team analysis of case study documents and interviews*
The financial costs and benefits of moving to a group structure

Group structures can have financial benefits; RSLs can reduce tax liabilities and make savings on borrowing. However, savings from economising on central services or operational integration are not automatic. They may be outweighed by set-up, transitional and ongoing costs.
Housing Corporation guidance requires a business case for groups, and suggests a number of potential financial benefits, including lower overheads, the ability to deliver an enhanced stock investment programme and lower projected rents (see Box E, page 23). However, immediate financial benefits were not the main reason for change given by most RSLs involved in this research. Only two of the case study groups were primarily interested in financial savings; and many could also identify costs in setting up and servicing a group structure that would reduce any such benefits, especially in the short term. The business cases of seven out of twelve groups did show at least one expected financial benefit each. Savings expected were based primarily on tax efficiency and economies of scale; the latter through cheaper borrowing costs and savings expected from shared overheads and shared specialist services [EXHIBIT 7]. Each of these areas, plus the identified group costs, is investigated in turn.

Business cases did not always say where or how expected savings would be made; some simply showed expected outcomes in terms of lower rents and lower management costs. Interviews by the research team drew out more detail on the ways in which some groups anticipated saving money. The cost savings anticipated, or hoped for, are shown opposite [BOX F].

EXHIBIT 7
Expected cost savings set out in business cases
Savings expected were based primarily on tax efficiency and economies of scale.

Source: Business cases of 12 case study RSLs
Tax efficiency savings are the easiest to identify – and the easiest to demonstrate. Group structures can allow RSLs to reduce their liability for corporation tax and to maximise the advantages of charitable status. Over the past three years, RSLs as a whole have reduced their corporation tax liability by over £40 million [EXHIBIT 8, overleaf]. However, as this coincided with the withdrawal of Section 54 tax relief, the benefit was in reducing a new liability, not in saving on existing costs.

**36.** Tax efficiency savings are the easiest to identify – and the easiest to demonstrate. Group structures can allow RSLs to reduce their liability for corporation tax and to maximise the advantages of charitable status. Over the past three years, RSLs as a whole have reduced their corporation tax liability by over £40 million [EXHIBIT 8, overleaf]. However, as this coincided with the withdrawal of Section 54 tax relief, the benefit was in reducing a new liability, not in saving on existing costs.
Over the past three years, RSLs as a whole have reduced their corporation tax liability by over £40 million.

Source: *How Groups Work; Reading National Housing Federation, 2000*

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37. Some groups include building companies. One case study example is New Charter Group, where the local authority’s former direct labour organisation (DLO) was reconstituted as such a company. New Charter Group has been registered as a VAT group, with the building company as a fully controlled subsidiary. This satisfied the Inland Revenue criteria for exemption from VAT on repairs. New Charter estimated that this arrangement will save the two landlord subsidiaries in the group over £1.5 million per year in VAT. This saving is based on anticipated repair orders expected in the first year of group operation.

38. Without comparable competitive tenders from other building firms it is not possible to confirm the extent of actual savings that may be made in this way. Building companies can be relatively risky businesses, and real savings made by avoiding VAT could be offset by higher prices that may be charged by an in-house company. However, under current VAT rules there clearly are potential savings for RSL groups that contain an efficiently run building company. Having the repairs arm in a separate company can also make it easier to ensure that costs are transparent and can be ‘benchmarked’ with other providers – although this partly depends on the way that shared group overheads are allocated across all group members.

39. Knightstone Group pays particular attention to tax efficiency and shows how an RSL can gain financial advantages from a good understanding of tax and charitable law.*[CASE STUDY 2]*
CASE STUDY 2

Maximising tax efficiency through a group structure

The Managing Director of the Knightstone Group is an accountant. The group has a specialist member of staff responsible for Treasury Management. Tax efficiency is seen as an important way of keeping central costs down. Various inter-company arrangements have reduced liability for corporation tax, VAT and stamp duty.

Both the non-charitable parent body and a number of the subsidiary non-charitable bodies make significant surpluses. The parent gift aids substantial sums to a charitable subsidiary. Properties are sold to that subsidiary by the parent on a ‘trickle transfer’ basis to recycle the surplus cash. Elsewhere in the organisation a large part of the rents from two non-charitable plc subsidiaries are transferred to a charitable body as a tax shelter.

Knightstone has not ruled out changing the status of the parent body to that of a charity, to simplify tax arrangements and enable them to absorb one subsidiary body into the parent.

Source: Research team, based on discussions with Knightstone Group

CASE STUDY 3

Preserving investment company status in a new group structure

Stock transfer RSLs generally have operating deficits in their early years because they start life with a large, front-loaded debt as a result of having to both pay for the stock and carry out significant repair and improvement work. Eventually, income from increased rents and a lower need for major repair should lead to surpluses. Investment Company status allows these early deficits to be set against operating surpluses in future years, reducing tax liability.

Swale Housing Association was benefiting from investment company status prior to formation of the Amicus Group. Swale checked the position with the Inland Revenue and obtained confirmation that the new group structure, in which Swale HA would be a subsidiary of the new parent Amicus, would not prejudice Swale HA’s ability to carry forward historic tax losses to set against future tax liabilities.

40. RSLs also need to be careful that they do not lose existing tax advantages through a merger or through group restructuring. Following a legal case in the early 1990s many stock transfer RSLs have been able to claim investment company status. This allows the RSL to offset accumulated losses against future surpluses, and reduces future tax liability. One RSL took steps to ensure that it would preserve its investment company status in a new group [CASE STUDY 3].
Reduced borrowing costs

41. The second area where cost savings were expected and achieved by groups was in borrowing costs, regarded by one finance director as ‘one of the few costs where there is significant scope for savings’. Savings were expected primarily through refinancing that took advantage of the larger scale of new groups. The administration of loans could also be rationalised. Commercial confidentiality prevented groups disclosing precise borrowing margins and terms. However:

- smaller RSLs said that they were able to secure significantly lower margins through joining groups;
- group refinancing apparently brought reductions of several base points; and
- lenders responsible for arranging the £213 million loan package for the New Charter Group commented that there would have been greater difficulties in securing two separate loans for the two RSL subsidiaries if the stock transfer had not been to a group.

42. It is not clear whether lower margins are obtained by pooling assets with a group parent or by cross-collateralisation between several asset-holding subsidiaries. In practice there is probably very little difference between these two options. In both cases interest margin advantages are similar. In both cases the principal disadvantage to subsidiaries is that loan arrangements effectively lock them into the group structure. They cannot leave without substantial re-financing costs both for themselves and, in some cases, for the remaining group members – and under some arrangements, the organisation leaving the group is liable to pay both sets of costs.

43. Borrowing against RSL assets for non-housing purposes is generally precluded by Housing Corporation regulations. However, one group had established a special purpose lending vehicle to on-lend within the group (principally to other RSLs), and another had been able to use housing stock as collateral for a loan to purchase nursing homes.

44. Although case studies showed that it is possible for groups to arrange cheaper borrowing where a group delivers economies of scale, the benefits were most obvious where the formation of a group significantly increased the asset base. This favoured small RSLs joining a group. Where an existing group restructures, or an existing RSL sets up a group structure but, as yet, has no new partner, there are no additional economies of scale. The advantages gained by any one-off restructure and refinancing always depend partly on market conditions, and there is no guarantee that these will be favourable at the time a new group is set up. There are also costs to refinancing that have to be set against any annual savings negotiated.

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I The assets remain with individual subsidiaries, but jointly support a loan/loans to the group and/or to individual members of the group.

II For example, where loans are redeemed early there may be additional costs payable to the lender.
45. It appears to be easier to arrange one loan for an unproven new stock transfer group rather than two or more loans for two or more new and unproven RSLs. However, it seems likely that the market might equally support a loan to one larger RSL (if this were permitted by the DTLR), or loans to two or more existing RSLs with a good financial track record. Whole stock transfers have been successfully split between two separate RSLs in the past. Cheaper borrowing is not driving the creation of stock transfer groups. The pressure comes from the DTLR requirements on maximum size, combined with local authority preference for one ballot and a ‘newly created’ RSL.

**Shared central overheads**

46. Despite a general expectation that groups should lead to economies of scale at the centre, these were a clear objective in only four cases, and a possible objective in a further three. Where such savings were expected, they were rarely quantified; only one of the case studies could identify a costed saving from shared overheads. Some interviewees expected such savings to emerge in the future (for example, through bulk purchasing, innovations such as call centres and selling services externally). Others were more sceptical. Finance directors seem less likely to expect such savings than chief executives. Those who do expect these savings assume that they will happen ‘at some future stage’ – curiously, almost always when a new group has grown to double its existing size.

47. None of the groups visited anticipated significant savings through better integration of customer services (other than call centres). This may be because, with a few local exceptions, groups to date have been a vehicle for geographical expansion rather than local consolidation. This reduces the scope for savings through integrating operations – for example, by merging local offices or area management staff.

48. The advantages of scale set out in business cases and promotional material are often theoretical. They could also be achieved in other ways. Effective partnerships with separate organisations not part of the group might deliver equal economies of scale in specialist areas like training or IT. Local and health authorities are increasingly looking at joint commissioning and partnerships for procurement; RSLs may find that these routes can deliver cost savings and quality improvements as effectively as shared support services within a group, especially where group members carry out very diverse activities and have different requirements from support services.
49. Housing Corporation performance data does not show whether membership of a group brings any clear cost advantages to all group members. The data is collected on an individual RSL basis and is not designed to highlight group performance. Analysis of performance indicators shows no clear link between management costs and RSL size, irrespective of group membership [EXHIBIT 9]; and there is no apparent additional cost advantage linked to general group membership. The spread of costs is less among those RSLs in groups; this may represent a small reduction in risk linked to group membership.

50. It may be that there are financial advantages to being a group member, but the relative impact of other cost drivers (such as stock age and condition, geographical location and stock concentration or dispersal) cannot be disentangled from group membership in the current performance indicator database. In addition, the element of management costs represented by central services is not allocated between the members of different groups in a standard way; so there may be some distortion of costs in comparative figures.

EXHIBIT 9

Does RSL size affect management costs?

There is no clear link between management costs and RSL size.

Source: Housing Corporation PI database (excluding those RSLs that predominantly provide for particular special needs groups that can result in higher costs).
Were cost savings achieved in the case study groups?

51. One smaller subsidiary case study organisation was able to demonstrate savings as a result of joining a group and taking advantage of services such as IT, finance and repairs from elsewhere in the group. The organisation concerned had been in financial and managerial difficulties before joining the group; the extent to which the savings were the result of good management by the parent rather than group size is unclear. There were no clear financial benefits to the rest of the group. Conversely, one organisation due to leave a group had calculated that it would make a 10 per cent saving on the costs it was currently having to pay to its parent.

52. Only one study site had a costed saving expected through reduced overheads. The Longhurst Group was due to take on stock previously managed on contract for East Northamptonshire Council into a new subsidiary in March 2001. They anticipated savings to their group of £500,000 a year as a result of spreading central group overheads over a stock and staffing of double the previous size. However, there were costs involved in the transfer that would delay the overall achievement of this saving. There would also be additional costs for the local authority, i.e. an impact on the public purse, that need to be set against this saving. The chief executive estimated that after allowing for these costs the overall efficiency saving would still be around £300,000.

53. Apart from tax and possible borrowing advantages, the case studies, other than Longhurst group, produced little evidence of groups delivering cost savings on central services for larger RSLs. This does not mean that savings from economies of scale are not possible, but it does show that they need to be identified and planned for – they will not occur automatically [EXHIBIT 10, overleaf]. They must also be set against the costs of establishing and running groups. In addition, while tax savings may benefit an individual RSL, they do not result in more effective overall use of public money. From a broader national perspective, consistently cheaper borrowing or savings via increased efficiency are far more important.
Apart from tax and some borrowing advantages, the case studies produced very little evidence of cost savings on central services.

Note: The ‘possible cost savings’ shown on Exhibit 8 were not achieved and have not been shown on this chart.

Source: Research team, based on case study business cases and interviews

The costs of establishing and running a group

54. Establishing a group imposes costs on RSLs:
- the one-off cost of setting up (or changing) a group;
- transitional costs over the first few years; and
- the ongoing cost of maintaining a group.

55. Set-up costs may include preliminary consultants’ advice on options, legal fees, developing and promoting a new corporate identity, and an increase in staff during the transitional period [CASE STUDY 4]. These set-up costs must be recovered before a group can claim to be saving money. Harvest Group estimated a single cost of £100,000 for staff and external consultants to establish their group.

56. Experience from reorganisations and mergers in the private sector\(^1\) and from local government suggests that anticipated cost savings are often outweighed in the short term by set-up costs. During the first year or two there can also be extra transitional costs while old systems are run in tandem and staff are consulted on changes [CASE STUDY 5]. Groups may need to provide guarantees to existing managers, staff and boards, including protecting the interests of staff transferred under the TUPE regulations. Merging the terms and conditions of staff across groups can also cost more, especially in the short term.

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\(^1\) Estimates of ‘successful’ mergers range from between 25 and 50 per cent of all mergers if success is measured by improved shareholder value (Ref. 2).
There can be other ongoing costs; for example, the administration of intra-group agreements and more complex governance arrangements. Groups are more complex to operate and require more specialist skills; the ability to spread such costs across a larger organisation makes these specialist services more affordable, but bringing them in-house may not be cost effective. Unlike set up and transitional costs, these expenses must be budgeted for year on year.

CASE STUDY 4

The costs of setting up a new group

Establishing Prime Focus Group in 2000 involved set-up costs of around £170,000. These costs included legal advice and human resources advice (including that connected to the Transfer of Undertakings (Protection of Employment) Regulations 1981 (TUPE)); and £70,000 for a new corporate identity, including the launch of a new image and visual identity, associated publicity materials, stationery, office equipment, and changes to the vehicle fleet.

Source: Research team, based on discussions with Prime Focus Group

CASE STUDY 5

Integrating group members as ‘equal partners’ and ensuring that staff are committed to the new organisation takes time and costs money

The Yorkshire Community Housing Company decided to adopt a gradual approach to integration of functions from its two initial members. The aim was to develop procedures that enjoy wide ownership among staff and board members. There was also a concern among the directors not to be seen to ‘jump ship’ to the new parent and abandon the frontline staff in the subsidiaries.

* Fully harmonised staff terms and conditions were expected to take two years.
* Staff movement from the subsidiaries to the parent was gradual (development and regeneration functions first, then finance and IT).
* A temporary office for the parent was acquired after a year; a purpose built new office was being developed.

There was also a gradual approach to cultural change and building a group culture.

* Events were organised to enable tenants from the two subsidiaries to share experiences.
* Events were held for staff to get to know one another.
* After about a year a cultural change programme was commissioned for the group Management Team; the plan was to cascade this down to staff at all levels.

Source: Research team, based on discussions with Yorkshire Community Housing

57. There can be other ongoing costs; for example, the administration of intra-group agreements and more complex governance arrangements. Groups are more complex to operate and require more specialist skills; the ability to spread such costs across a larger organisation makes these specialist services more affordable, but bringing them in-house may not be cost effective. Unlike set up and transitional costs, these expenses must be budgeted for year on year.
The increased complexity of some groups, especially those covering a diverse range of activity, can also hamper the effective operation of business. Essentially, a group is a collection of discrete enterprises operating under a collective umbrella. The group has to service large numbers of boards and board members and process separate contracts and other communications for each enterprise. Sometimes different rules apply for relatively similar companies operating within the same group (for example, between a charitable and a non-charitable RSL). These factors add to complexity and can make groups more expensive and difficult to operate than unitary RSLs of a similar overall size.

Some case study RSL managers argued strongly that there were few advantages to be gained by large RSLs re-structuring themselves as a group. They felt that costs would increase and clarity of purpose diminish without any demonstrable benefit to tenants. RSLs could still establish subsidiaries or joint ventures in circumstances where such structures were necessary to fulfil other objectives (such as operating in Scotland, achieving a stock transfer or operating Business Expansion Schemes in the late 1980s). But where it was not absolutely necessary they felt activities should be run within a single structure to reduce complexity and to save costs.

It is often assumed that growth will lead to cost reductions, by spreading central overheads and reducing borrowing costs. But a number of the case study groups were currently either ‘empty shells’, set up to attract new partners, or had so far only attracted relatively small partners; so they had not yet achieved the scale of operations where they expected to save money. If a key condition for cost savings is the success of the growth strategies, what is critical mass? What size should groups aim for? There is no evidence that size, better quality services and lower costs are intrinsically linked; some of the larger RSLs are poorer performers on the Housing Corporation’s key performance indicators. In the short term costs can increase.

Standardisation and full integration across a group may not deliver savings. Preserving separate terms and conditions for staff can address TUPE regulations and may have financial advantages, for example where a group operates in areas with different labour markets and wage rates. Similarly a flexible approach to operational policies may be a key advantage to a group, enabling it to better adapt to different regional and local housing markets and business environments.

Non-stock transfer RSLs with more than 5,000 homes in management in 1999/2000 showed considerably worse performance on the Corporation’s key Ps than either smaller RSLs or stock transfer landlords of a similar size (Ref. 6).
The clearest cost advantages within the case study groups were demonstrated by very small RSLs that had joined groups, including those that had been in financial difficulties when operating alone. The group solution enables these smaller RSLs to continue in name at least, though with considerably less autonomy, using services that are mainly provided by a parent or larger partner within the group.

There may be considerable potential for further cost savings by consolidation of locally based RSLs into a single group. Currently, most mergers and groups continue to be about geographical expansion rather than consolidation. This may be because it is more difficult to negotiate a merger or group based on rationalising existing operations, as this is more likely to involve job and local office losses typical of integration in profit distributing company mergers – for example, in banking. However, for RSLs operating in low demand areas, such consolidation would also result in a concentration of risk. Operating in several different localities or across a range of diverse activities might better spread the risks.

One case study group shows, on a small-scale, the potential for locally based consolidation to produce both cost savings and enhanced accountability. A black and minority ethnic (BME) RSL in financial difficulties joined a group structure, and the group successfully turned it round. This avoided the need for Housing Corporation intervention. A stronger BME association operating in the same area has since joined the group. The parent could now restructure some of its own stock with that of the two BME subsidiaries in the locality and create a single, locally accountable BME-led management unit. The Housing Corporation would be happy to see an independent subsidiary BME RSL in the area within a strong group.
Conclusion

65. Group structures can have financial benefits. They have allowed RSLs to reduce their liability to corporation tax (although this only replaces the previous exemption provided and so delivers no ‘new’ saving). Some groups have used charitable status to reduce tax liabilities, and some have also been able to operate as VAT groups, thereby avoiding paying VAT on internal transactions. Others, especially smaller group members, have made savings on borrowing costs from joining groups.

66. However, savings from economising on central services or operational integration are not automatic. In the early years of a group any such savings are likely to be outweighed by set-up and transitional costs. There are also the ongoing costs of maintaining group governance and management arrangements. Where RSLs are contemplating setting up, amending or expanding groups, they need to be clear about how and when assumed financial benefits will be achieved. Some guidance for managers is set out below in the ‘Critical success factors’. Assuming that savings will ultimately arrive via unidentified economies of scale is not enough. Overall, the evidence from case studies is that there are rarely quick paybacks from group creation or enlargement, and savings are never automatic.

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**CRITICAL SUCCESS FACTORS IN RELATION TO FINANCIAL COSTS AND BENEFITS**

How can RSL managers (both senior staff and board members) who are considering setting up, joining or amending a group structure minimise costs and maximise financial benefits?

**Make cost savings an explicit objective.**
- If cost savings are not an explicit objective, then they are unlikely to be achieved.

**Look carefully at tax advantages.**
- They are the most reliable source of immediate financial advantage but are dependent on government policy that can change!

**Set clear, measurable targets and timetables for all cost savings, especially those expected from economies of scale.**
- All of the groups that had savings from tax efficiency as an explicit objective were able to demonstrate that savings had been achieved.
- Many groups make assumptions and promises about savings from economies of scale; not all can demonstrate that they are achieved.
- Those case study groups with potential savings identified in advance, and clear plans to achieve them, could show cost savings.
CRITICAL SUCCESS FACTORS IN RELATION TO FINANCIAL COSTS AND BENEFITS (CONTD).

Savings on borrowing may occur, but these are likely to benefit smaller partners most and may lock organisations into a group.

- Groups will need to consider individually when the gains will be significant enough to justify the likely costs of a refinancing for all members of an existing group.
- There are no clear borrowing advantages associated with a group structure; they are related to the increase in total assets and to good treasury management – and can be achieved by single organisations.
- Refinancing has costs as well as benefits. Both should be considered over the life of loans.
- Shared assets used for re-financing may reduce borrowing costs but restrict the individual freedom of action of all organisations involved.

Economies of scale in central services are more difficult to achieve than tax and borrowing benefits, and take longer.

- Shared services will not always benefit all partners.
- Some specialist services may be obtained more cheaply by arrangements with an outside partner, with or without a group being involved.
- Among case study groups, those with definite stock increases coming through stock transfer or merger were more able to identify intended savings than others.
- There is often a transitional period of additional costs before savings are made, which makes the need for a clear timetable and action plan that boards can monitor especially critical.

Consider whether a greater or similar level of saving can be made more efficiently in a different way.

- The more diverse existing or expected group partners are, the more likely they are to have different needs from central and support services; it may be better for group members to buy from appropriate specialist partners rather than always pool resources for a group-based solution in, say, IT or training.

Acknowledge the costs of group structures.

- Set-up costs are inevitable; they need to be identified and acceptable pay back periods agreed.
- Harmonising staff terms and conditions across a group can be disruptive and expensive. It may not always be necessary.
- A budget should be set aside for consultation with tenants and other stakeholders to ensure that there is clear understanding of the proposals and that tenants have the opportunity to express their views.
- A budget should be set aside for properly explaining the new group and its structure to tenants.
- Confirmation that there will be no immediate cost increases, service reductions or job reductions/changes may need to be given to tenants, staff and board members in those organisations joining a group. The costs must be identified.
- Integration takes time. Careful planning is needed to avoid the costs and performance dips that can arise from poor morale or failure to engage staff in making necessary changes.
- There are ongoing costs. They should be identified early, so that they can be set against expected savings before decisions are made. They can be minimised by keeping any new board or management structures as simple as possible.
Using groups to promote stock growth

It is not the existence of a particular group structure that attracts uncommitted RSLs or potential stock transfers to become new group members; existing relationships, reputation and specific promises seem to have greater influence.
The most frequently cited reason for setting up or amending a group structure was as a means for an organisation to grow. Growth was mentioned in ten of the fourteen case studies, and was a major theme of six. There were plans for growth as an alternative to a full merger with other RSLs, by taking on local authority stock transfer and through the development of new activities. There has been pressure on RSLs to increase stockholdings and turnover in recent years. This reflects pressures to reduce costs through best value; concerns about lower income growth through rent regulation; the desire to pursue social objectives outside housing development and management; the wish to maintain a dynamic organisation; and the personal ambitions of senior executives and board members. But it has become increasingly difficult to grow quickly through organic growth and new development alone, and it has never been easy to persuade other RSLs to merge. Group structures are seen by some as an alternative route to growth. This chapter reviews the success of strategies for growth via stock increase. It looks first at stock growth through attracting existing RSLs to join a group, and then at stock transfers into group structures. The other option for growth, by diversifying into non-housing activities, is discussed in the next chapter.

Four different approaches were taken by the RSLs involved in this report. These were:

- setting up an ‘unfinished’ group shell to attract in partner(s); details of arrangements between the new parent and subsidiaries are deliberately left open so that they can be influenced by new partners;
- general advertising of a specific group ethos (often linked to the ‘shell’ approach);
- building on pre-existing links to gain new partners for an existing group; and
- setting up a new group with an identified partner instead of merging.

For groups hoping to attract existing RSLs to join them the key selling point of a group structure is that it delivers some of the advantages of scale without the need for any of the partner RSLs to completely lose their independent identity. In the short term there is also less of a personal threat to the posts and roles of existing senior staff and board members. Sometimes groups are presented as a ‘partnership of equals’ in which all subsidiary RSLs would have an equal opportunity to influence group policy. Such advantages are claimed in annual reports, group business plans, re-designed logos and even advertisements [EXHIBIT 11, overleaf].
70. In fact most RSLs joining a group as a subsidiary have done so from a position of weakness. While the language of group structures tends to play this down, it is only a more palatable format than a merger or takeover, with largely the same results. In most cases, there is a clear dominance by one RSL within the group, and overt control is exercised over all the subsidiaries by the parent body.

**Setting up an ‘unfinished’ group shell**

71. If the principal aim of a group reorganisation is to attract at least one new substantial partner it makes sense to delay some details until that new partner is identified and can participate. One chief executive commented that their group design was incomplete since ‘we have not yet negotiated with a large financially stable and ethically compatible partner. While it is essential that such a partner is able to sign up to the group’s values, including a genuine commitment to tenant involvement, most other details will be negotiable. If they have a better IT function than we do, then it may be that their IT team will become the core of the parent IT team.’

72. However, incomplete structures mean delays in registration and potentially abortive costs. One new group visited as part of this study took two years to secure premises and move headquarters’ functions – such as development, IT, finance and human resources – out of the subsidiary offices. Another group had only one employee (the chief executive) on the payroll of the parent. Other central service functions were still carried out by staff of the RSL that had ‘founded’ the group but which was now technically a subsidiary. The group and the
subsidiary boards were also still largely made up of members drawn from the founding RSL’s board, causing perhaps unnecessary extra meetings.

73. Unfinished shells may be more attractive to a potential partner, but can encounter problems with Housing Corporation regulators. One group ran into some difficulties because work on recruiting new potential partners (through stock transfers) was seen to be running ahead of consolidating the group, developing business plans, and implementing operational arrangements, such as service level and procedural agreements.

74. Another case study RSL set up an empty shell company as a parent body ready to welcome as yet non-existent RSL partners. They commented that the Housing Corporation had ‘struggled to understand’ why the registration of a group parent was sought before there was a potential partner in the frame. The Corporation also advised against registering an ‘empty subsidiary’, believing this to be an unnecessary complication of an already complex process.

75. There is little evidence that substantial numbers of RSLs are looking for a chance to collaborate through involvement in someone else’s group shell. If RSLs do want a partner and have a choice, it is more likely to be based on historic or personal links and local reputation than on advertising.

Advertising a specific ethos

76. Some RSLs lay considerable stress on attracting partners with a similar ethos and core values, and concentrate on developing a group ‘brand’ as a way of signalling core values and avoiding abortive negotiations with RSLs that cannot agree on underlying aims [CASE STUDY 6, overleaf]. Potential mergers or group arrangements do break down, but it is not clear whether a distinct group image makes this more or less likely.
Building on existing links

77. The right visual identity and language are unlikely by themselves to attract partners. Groups are essentially trust-based relationships. Not surprisingly, groups have often expanded through previous alliances or service provision arrangements. The Longhurst Group grew because of a stock transfer from a local authority where the RSL had been the housing management contractor. As more authorities let such contracts this may become a more common route. When Black Star joined the Prime Focus Group, Focus was already the main freeholder of the properties managed by Black Star, making it easier for Black Star to join that group as opposed to another.

Setting up a new group with an identified partner as an alternative to a merger

78. Yorkshire Community Housing Group set itself up as a new group based on a merger of two existing free-standing RSLs (Ryedale and Yorkshire Metropolitan Housing Association). Such a coming together of relative equals is not that common. The two RSLs moved slowly to ensure that tenants and staff understood and were happy with the proposals. Although the new structure is a group, the process was more like a merger since it involved a transfer of engagements and the two housing management subsidiaries are no longer independent RSLs (Case Study 5, page 35).

CASE STUDY 6

Advertise an ethos and identity

Focus Housing Association engaged consultants to develop a new image and visual identity for the new Prime Focus group, adopting a visual metaphor of nine circles arranged in a square with the parent in the centre as the strategic hub. The number of circles was deliberately more than the number of existing subsidiaries to give the impression of room for more. Five key words were selected to represent the group brand as ‘committed, trustworthy, diverse, progressive and pioneering’.

More pragmatically, Swale Housing Association renamed their new group as Amicus, because they believed that the previous name was too linked in potential partners’ minds with Swale District Council. They believe the change has helped their subsequent growth, including expansion into other local authority areas.

Source: Research team, based on discussions with Prime Focus and Amicus
79. Case study groups followed different strategies in their attempts to attract partner RSLs. Overall, the main route to such growth to date has been where smaller and weaker RSLs that are ‘too weak to function but too proud to merge’ have either been encouraged to join an established group by the Housing Corporation and/or recognised that their future as a stand alone organisation was increasingly bleak. Stock transfer seems to offer more opportunities for larger stock acquisition.

80. A major influence on the formation of RSL groups has been the rapidly expanding local authority stock transfer programme. Since 1988, over 100 local authorities have transferred some or all of their housing stock to bodies that are now RSLs. Over 600,000 homes have transferred and the size of the annual programme has accelerated in the last three years. Over 20 per cent of all the groups identified in chapter 2 have at least one member organisation that owns stock transferred from a local authority.

81. Some of the issues involved in group expansion through stock transfers are similar to those that arise through expansion when an existing RSL joins a group. However, there are distinctive issues reflecting both the regulatory framework for stock transfer approvals and the political requirements of local authorities selling stock. There are also a number of distinct models for local authority stock transfer, each with different implications for RSL group structures [TABLE 2, overleaf]. This section draws on case studies to explore three of the most important models:

i) stock transfers into specially created subsidiaries within existing RSL groups;

ii) transfers into existing RSLs, sometimes as a specific new local division; and

iii) a whole stock transfer into a newly created group. This involves very different issues to stock transfers into existing RSL structures.

82. Most early stock transfers were whole stock transfers to newly formed RSLs. Since the expansion of the stock transfer programme to include urban stock transfers, there has been greater diversity, including partial transfers into existing RSLs (particularly under the Estates Renewal Challenge Fund (ERCF) programme). Some of these were into specially created subsidiaries. The expansion of the stock transfer programme since 1998 has led existing RSLs to offer to set up subsidiaries with locally accountable boards to local authorities that are seeking to transfer stock. An increasing number of existing stock transfer landlords have been exploring the merits of forming or joining groups to increase their size and competitiveness. Most recently, a number of local authorities wishing to undertake whole stock transfers have had stock in excess of the current DTLR size limits, so a new option of whole stock transfers to newly established RSL groups has emerged.
Specially created stock transfer subsidiaries

Three case study groups had successfully attracted stock transfers as subsidiaries. A further two were actively seeking new stock transfer partners. Stock transfer is now clearly seen by many RSL groups as a growth opportunity. There is a belief that joining a group may be more attractive than becoming part of an existing RSL. Special purpose subsidiaries with ‘independent’ boards can be presented as locally based and accountable, thereby meeting local authority requirements and any tenant preference for continued local influence after stock transfer. At the same time a group can enable the new subsidiary landlords to benefit from central services and expertise provided by a parent RSL.

### TABLE 2

The development of options for stock transfer

Many involve existing group structures.

<table>
<thead>
<tr>
<th>Year</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>First whole stock transfer to newly established RSL (Chiltern Hundreds).</td>
</tr>
<tr>
<td>1990</td>
<td>Only stock transfer to a private profit distributing company (Rochester to Medway Housing Society).</td>
</tr>
<tr>
<td>1992</td>
<td>First RSL group with a non-asset holding parent (Anglia); includes one RSL that started as a stock transfer (Wherry HA).</td>
</tr>
<tr>
<td>1995</td>
<td>First whole stock transfer RSL set up from the start as a subsidiary of a mainstream RSL group. (Maldon DC to Plume, part of Moat Housing Group).</td>
</tr>
<tr>
<td>1996</td>
<td>First single estate transfers to existing and newly established RSLs.</td>
</tr>
<tr>
<td>1996</td>
<td>Two RSLs originally set up to take whole stock transfers form a new group – Flagship group includes Peddars Way and Suffolk Heritage HAs.</td>
</tr>
<tr>
<td>1998</td>
<td>ERCF estate transfers to both newly established and existing RSLs, including existing RSL groups.</td>
</tr>
<tr>
<td>1998</td>
<td>RSL group acting as management contractor to London Borough of Bexley before a transfer becomes landlord after transfer. (Orbit Bexley HA becomes subsidiary in Orbit, and London and Quadrant Bexley HA becomes subsidiary in London and Quadrant).</td>
</tr>
<tr>
<td>2000</td>
<td>First whole stock transfer to new free-standing RSL group (Tameside Metropolitan Borough Council to New Charter Group).</td>
</tr>
</tbody>
</table>
Stock transfers to existing RSLs have so far formed a small proportion of overall stock transfer approvals each year. Senior local authority housing staff, and many councillors, tend to prefer a new stand alone RSL to transfer stock into; the former currently take many of the new top posts in those new RSLs, while members like the idea of a new RSL with a clear local focus that may be more easily influenced. The introduction of requirements for authorities to look at more than one new landlord option, plus the increase in the number of stock transfers, may increase RSL involvement. Five RSLs are already ‘preferred new landlords’ for areas expecting to ballot in 2001/02.

As with attracting existing RSLs into a group, a previous trust-based relationship or a good local reputation are keys to success. Peabody believes that its existing reputation attracts tenants to support its bids for estate transfers. The Longhurst Group was able to build on an existing housing management partnership with East Northamptonshire District Council to secure a stock transfer on expiry of the contract. The RSL already employed the staff providing the housing management service in East Northamptonshire, so the stock transfer process was relatively straightforward, requiring only the replacement of some central services (such as allocations policy co-ordination) previously provided by the council. It was, as a result, considerably cheaper to achieve than most new transfers of a similar size (CASE STUDY 7, overleaf).

Authorities with experience of partial transfers are increasingly clear about their expectations and the requirements for further partial transfers. Many of these are individual estates, some requiring particular investment. In these cases a good local track record and a willingness to take account of specific local preferences are likely to help RSLs. This may mean that RSLs need to develop new structures that give greater levels of local influence than the RSL has traditionally given its own tenants. This could lead to a reorganisation of local accountability for all tenants. The Harvest Group, for example, has introduced locally accountable boards for stock transfer subsidiaries.

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1 They have been selected by the local authority, but tenant ballots have not yet been held to confirm the proposed transfers.
CASE STUDY 7

Growth by building on existing relationships

Longhurst Group was developed by a well-established RSL to accommodate a stock transfer of properties that it currently managed for a local authority. The RSL realised that if this transfer was successful further partners might follow.

Longhurst believes that changes that follow on from discussions within an organisation are more likely to gain support than something imposed. There must be a business case for change; there is no point in creating new structures or organisations unless they help to reduce costs and make the organisation more efficient and responsive. The new group structure should not lead to more posts or substantial regrading. In some cases there will be a doubling up of group and subsidiary functions: for example, the deputy group chief executive will continue to be the managing director of East Northants Housing.

The stock transfer incurred direct costs of about £680,000.

The DTLR publishes information on comparative costs of transfers; reported set-up costs for East Northants were only £71 per dwelling, while for the other eight transfers of a similar size in the same year, costs ranged from £230 to £676 per dwelling.

Source: Research team, based on discussions with the Longhurst Group and DTLR data

Stock transfer divisions

An alternative model for partial stock transfer, particularly of individual estates (for example, under ERCF) is transfer directly into an RSL management structure [CASE STUDY 8].

 Whole stock transfer groups

New stand alone groups are being set up by large, urban local authorities that wish to hold a ‘single ballot’ transfer of stock exceeding the size limit for transfer to a single RSL (currently 12,000). One case study provided an example of such a group. In 2000, Tameside Borough Council established the New Charter Housing Group to receive a stock transfer of all its remaining homes (there had been a small partial transfer of about 1,000 homes to another new RSL in 1999) and the authority’s direct labour organisation (DLO).
CASE STUDY 8

Growth through smaller stock transfers – moving the stock in-house or creating a new ‘group member’

The Peabody Trust has taken a number of ERCF transfers in-house and this is its preferred approach to stock transfers. The Trust is determined to make the decision ‘on the basis of what is the right thing to do to achieve the best result for local people’. Two key considerations are:

- the scale – if the number of units involved in the stock transfer is over a certain size; and
- the maturity of community governance – if there is an established model through which the local community is used to being represented and involved in managing an estate.

The Chief Executive pointed out that the size of most transfers (from 300 to 1,300 homes) made it easier to bring them in-house. With transfers of 1,500 to 2,000 homes or more, there is a stronger case for creating a separate entity. This approach was taken by the Trust to accommodate the Waltham Forest Community Based Housing Association (WFCBHA), which is a group subsidiary.

*Source: Research team, based on discussions with the Peabody Trust*

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89. Given the prohibition on transferring to a single RSL, the main alternatives examined by Tameside were to transfer to two or more quite separate bodies or to set up a group; a group structure was preferred. The group comprises a non-asset holding parent, two geographically based asset holding housing management subsidiary RSLs and a building company subsidiary [EXHIBIT 12, overleaf]. Similar models have been set up for the more recent large transfers in Coventry and Sunderland. The case study focused on the early relationship between parent and subsidiaries within the group, which came into operation in April 2000.

90. The group takes a corporate approach. To improve performance and to increase staff motivation and morale, a ‘one company’ message is being promulgated, emphasising group objectives and identity, although the two RSL subsidiaries may develop more distinct identities over time. The group has set good standards in relation to accountability, including taking steps to elect and train tenant directors (as tenant board members are known).
EXHIBIT 12
Structure of the New Charter Group
Tameside Borough Council established the group to receive a stock transfer of all its remaining homes.

Source: Audit Commission.

91. Two geographical monopolies who promised the same things and are tied financially into a group with a ‘one company’ message does not offer a significantly different option in the short term to a single monopoly RSL. Two or more new RSLs – or two or more existing RSLs taking on parts of the stock – would have offered more diversity and greater immediate cultural change. However:

- it would have been more complex to run several ballots, and there may have been a split vote and abortive costs;
- finding finance at a similar rate for two new, separate RSLs would have been harder – though perhaps less so if established RSLs had been involved;
- it would have been more complex to split the DLO; and
- one of two individual RSLs might have had a greater concentration of poor stock, and hence faced greater financial problems than the other; using the assets of both subsidiary RSLs as the security for all the loan finance required by the group gets around this problem.

92. There may also have been savings resulting from both economies of scale and from including a building company in the group. These are estimated by New Charter as £1 million extra per year on central and support services, and £1.5 million a year from VAT savings on building company work.
These new stock transfer ‘umbrella’ groups raise questions for the Housing Corporation; should it focus attention and regulation on the individual RSLs or on the group? These issues apply to regulating large groups generally, but are highlighted in these cases because of the origins and intentions behind the group development. Whatever the claims made in business plans, these groups are, at least in part, set up to comply with stock transfer regulation rather than as a ‘group of choice’ based on inherent operational advantages. The independence of new subsidiaries in the early years of these groups is questionable. A whole group regulatory and inspection approach, at least initially, would seem more appropriate. This is discussed further in chapter 6.

Conclusion

Some RSLs have successfully grown through a group structure. In general, existing RSLs joining a group are much smaller RSLs needing financial or management support from a larger structure, although there are exceptions – the two RSLs involved in setting up the Yorkshire Community Housing Group were more equal in size. A major area of growth is stock transfer. While many tenants and local authorities seem to like the idea of new subsidiaries for stock transfer, the experience of the Peabody Trust shows that it is possible to successfully attract partial stock transfers without setting up a new subsidiary. It is not the existence of a particular group structure that attracts uncommitted RSLs or potential stock transfers to become new group members; existing relationships, reputation and (with stock transfers) locally made promises in bids seem to have greater influence.

CRITICAL SUCCESS FACTORS RELATING TO GROWTH

How can RSLs best use groups to increase their stock, either by attracting existing RSLs to join them, or by attracting local authority stock transfers? The image and ethos that they present may influence those RSLs that are strong enough to choose, but there is, as yet, little evidence.

RSLs should:

Be flexible to fit with potential partners’ preferences.

- Opportunities to influence constitutional and operational details will be valued by most potential partners and may be an essential requirement for those looking to transfer stock.

Build on existing links and partnerships.

- Successful growth is often built on existing trust-based relationships; for example, an RSL that had previously managed an authority’s stock becoming the new stock owner after a transfer ballot.

Decide on critical aspects of strategy before seeking partners…

- For example, geographical consolidation or geographical expansion?
- Expansion into a new field such as special needs or expansion of current activity?

…and review strategies for saving as soon as potential partners are found.

- For example, consider preserving local terms and conditions and operational policies to exploit the flexibility that groups can offer.

CONT'D
CRITICAL SUCCESS FACTORS RELATING TO GROWTH (CONT'D)

Plan realistic payback periods; there is little evidence of quick savings.

- Undertakings may have to be given to partner boards, managers, and staff that will delay any savings resulting from reorganisations.
- Cultural integration takes time and can cost money.

Be prepared to be flexible to meet the preferences of tenants and local authorities in order to attract stock transfers.

- Choosing the most effective model to attract local authorities and tenants may involve compromises between regulations, politics and the most cost-effective organisation.
- A stock transfer deal may require the RSL to develop new structures for existing tenants that allow more local control and tenant participation.
Using groups to promote or manage diversification

The desire to carry out activities outside a narrow concentration on social rented housing has been a major reason for setting up and developing groups. Managers have also found that a group structure can be a useful framework for organising diverse activities.
**Introduction**

95. Diversification is not new. Some RSLs have always seen themselves as having a role that goes beyond their core activity of building and managing social rented housing. For example, the Peabody Trust was established by a deed of trust in 1862 to ‘relieve poverty amongst Londoners’ and so is not limited to the provision of social housing. This wider role has not always been acceptable to all regulators. Prior to the current ‘social housing standard’ [BOX G] many activities outside core development and the management of social housing were seen as ‘diversification’. The earliest group structures developed in the housing association sector in the 1970s and 1980s were essentially responses to regulatory controls on direct RSL participation in wider activities. Charitable housing associations wishing to take on shared ownership, or leasehold accommodation for sale to older people, developed non-charitable subsidiaries to undertake these activities because there was a doubt as to whether these could be regarded as charitable.

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**BOX G**

**The current Social Housing Standard**

The Social Housing Standard is used by the Housing Corporation to regulate core landlord activities of RSLs. It was most recently defined in 1999 as part of the Corporation’s policy in regulating diversity.

In *Regulating a Diverse Sector* the Corporation established a wider description of social housing to include:

- homes for letting (except ‘tied’ accommodation) and associated amenities and services, for people whose personal circumstances make it difficult for them to meet their housing needs in the open market.

The policy indicated that this would now include:

- short-life housing for homeless families;
- Private Finance Initiative (PFI) schemes involving social housing;
- management contracts for local authority rented housing;
- community regeneration initiatives;
- care and repair contracts;
- residential care homes;
- domiciliary and social care services;
- low-cost home ownership.

Certain activities, such as the provision of registered nursing homes, student and nurses’ accommodation and market renting, remain outside this core definition, but can be undertaken for valid business reasons by RSLs whose governing instruments permit this, provided that such activities do not form a majority of overall business (Ref. 5).

*Source: Housing Corporation*
Many case study groups were originally set up to allow the parent RSL to diversify; in some cases managers have subsequently developed the group structures as a way of managing diverse activities. This chapter looks at why RSLs diversify, the use of groups to carry out the wider activities involved, how group structures are created or reorganised to manage diverse activities and the risks involved, and how successful these group structures are.

Diversification is common among RSLs. A National Audit Office (NAO) sample survey in the late 1990s found that one-half of all the RSLs surveyed had diversified in some way (Ref. 7). RSLs diversify because:

- it fits their core organisational values;
- it can increase group and RSL turnover and support specialist posts to the benefit of all group members; and
- it enables them to respond to changing government priorities.

Many RSLs believe that diversifying allows them to better serve their communities. They want to take a broader approach to tackling poverty, social exclusion and wider community needs than through the provision and management of social housing alone. The concept of a group being used as a ‘social investment agency’ is a recent example of this approach.

Diversification has helped some RSLs to significantly increase their turnover, although in most cases these increases have been small. Some diversification has been financially focused: in the late 1980s, Business Expansion Scheme (BES) projects gave tax breaks for investment in new market rented homes, while trading ventures deemed to be outside ‘permitted purposes’ have always been put in subsidiaries. The NAO survey showed that, over a three-year period in the 1990s, diversification increased RSL turnover on average by six or seven per cent each year – particularly important at a time when there was less public money available through the Housing Corporation or from local authorities for housing development.

Current Government policy sees work on social inclusion and regeneration as important, and wants RSLs to be involved in this wider role. The (then) Department for the Environment, Transport and the Regions (DETR) widened the permissible activities for RSLs in 1999 to include both regeneration and social care activities, and there is currently a range of new opportunities at both national and local level (Ref. 8). For example, RSLs are positively encouraged to take part in externalisation programmes (such as nurses’ homes and student housing); providing starter homes for ‘key workers’; and programmes based around additional government money for deprived neighbourhoods.
It is not always possible to separate these influences. Some RSLs take an opportunistic approach, diversifying because funding is available. Others are more selective; they seek funding for activities that the RSL sees as important to its values and purposes. Case study research at six RSLs in the West Midlands indicates that speculative diversification into a wide range of new activities is not common (Ref. 9). The researchers found new activity generally involved an increase in specialisation, as RSLs move into niche markets, such as meeting the housing and care needs of older people.

The ‘Social Investment Agency’ approach

Two case study RSLs wanted to expand their roles from providing housing in order to become more broadly based ‘social investment agencies’. Each had a slightly different view of what this would mean. Focus was the first RSL nationally to declare a move in this direction, and it developed its Prime Focus Group structure with a social investment agency approach as an explicit objective. This new body would have a mission ‘to relieve poverty and provide opportunities in priority communities,’ similar to that of Focus’ predecessor, COPEC, set up in 1924 (Ref. 10). However, the starting point for the group structure was a response to regulatory controls. Focus wanted to include activities such as education and training, both seen as being outside the permitted purposes of the industrial and provident societies that formed the organisation at the time.

While Focus was developing its idea, RSLs generally were being encouraged to take on the regeneration activity that Focus was interested in; Prime Focus interviewees commented that ‘it seemed as if each time we moved forward so did the policy agenda. Fortunately we were moving in the right direction’. Meanwhile the organisation was developing a new group structure. It was described by a tenant board member as an example of ‘organisational agility’; a structure that could respond rapidly and soundly to market opportunities across a wide spectrum of social activity (CASE STUDY 9). One interviewee saw the Prime Focus model as ‘different to most RSL group structures. It is not a device for growth, for tax avoidance or for mergers. Rather it is a means to take forward the organisation’s vision.’
Presentation, a black and minority ethnic (BME) RSL, also wants to become a social investment agency. It wants to develop its fairly unique position as a sustainable BME-led voluntary body with substantial expertise in regeneration and community development. It has developed a vision for an organisation covering four main areas of work. In addition there are plans for a charitable fund-raising subsidiary to enable projects such as mentoring to develop outside statutory funding frameworks. A group structure was seen as the method for realising this vision [CASE STUDY 10, overleaf]. (Both of these case study groups are at an early stage of development; so it is not yet possible to assess their success).

Using subsidiaries to locate non-housing activities was seen as just one strategy among many by case study groups: most social investment activity undertaken by RSLs does not require a special purpose subsidiary. Such activity can be undertaken on a project basis from within an RSL’s main structure. There may be strong reasons for ‘joining up’ community regeneration, training and employment initiatives with housing and neighbourhood management activities. This is now being encouraged by the National Strategy for Neighbourhood Renewal (Ref. 11). Some RSLs take the view that this is best achieved through a unitary structure and/or external partnerships with other agencies involved in the relevant neighbourhood.

CASE STUDY 9

**Diversifying into a ‘social investment agency’ (SIA)**

Prime Focus Group’s initial aim is to diversify into activities that will benefit the local community. There are special purpose subsidiaries for home ownership and training, as well as a BME housing association and a borrowing vehicle. However, as the SIA vision has developed, there has been a greater emphasis on ‘joined-up services’ and external partnerships. A more sophisticated model is emerging, with direct services to neighbourhoods and communities (such as housing management and community development) being provided by the RSL subsidiaries, while specialist elements (such as training and healthcare) will be provided by separate non-RSL subsidiaries. Prime Focus is also actively seeking partners with complementary skills (for example, RSLs with a track record in co-operative development or construction training). It believes that this will enhance the competencies of the group. It will also work with external partners (for example, those already involved in the Single Regeneration Budget (SRB) partnership for which Prime Focus is the accountable body).

*Source: Research team, based on discussions with the Prime Focus Group*

104. Presentation, a black and minority ethnic (BME) RSL, also wants to become a social investment agency. It wants to develop its fairly unique position as a sustainable BME-led voluntary body with substantial expertise in regeneration and community development. It has developed a vision for an organisation covering four main areas of work. In addition there are plans for a charitable fund-raising subsidiary to enable projects such as mentoring to develop outside statutory funding frameworks. A group structure was seen as the method for realising this vision [CASE STUDY 10, overleaf]. (Both of these case study groups are at an early stage of development; so it is not yet possible to assess their success).

**Social investment activity without a group**

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CASE STUDY 10

Diversifying into a social investment agency with a specific black and minority ethnic (BME) focus

Presentation is a BME RSL with 4,000 homes in management and development. It is currently repositioning itself. The new group – PHA – will consist of up to six organisations beneath the strategic parent:

- The stock-owning RSL, that will continue in its traditional housing role.
- A regeneration and community development agency – to build on Presentation’s existing work in this area. The association is a strategic partner on the SRB programmes in both Lambeth and Haringey, and is involved in many other regeneration activities around London.
- A ‘think tank’ – there are very few BME-led organisations that the government turns to for advice on policy issues. It is looking to establish an agency that can influence policy through, for instance, research and advice.
- A non-charitable company to allow the group to undertake a range of relevant activities as opportunities become available.
- Also under consideration are a special purpose funding vehicle and a charitable agency for small local grants.

Source: Research team, based on discussions with Presentation HA
Among case study organisations a common reason for wanting a group structure – or for wanting to change an existing group structure – was as a tool for improving management and governance [BOX H]. Group structures have been established or altered because managers believe they offer a more effective framework for managing the diverse activities of an RSL or existing group. New ideas can be piloted and tested before introducing them across the group. Activities with distinct sets of competencies (such as social care activities) can be managed together, making it easier to get appropriately skilled managers, and board members. Activities that show significant growth – and perhaps look as if they could best be separated from the parent group – can be prepared for ‘floating off’. And activities that are considered inherently risky can be clearly identified and the risk ‘contained’ and appropriately specialised managers appointed.

**BOX H**

Groups as a framework for managing diverse activities.

Management reasons for the establishment of separate subsidiaries:

**Piloting new activities**
- Provides a test bed for new ideas.
- Minimises risk and disruption to the RSL.
- Enables easier ‘exit’ if the activity is unsuccessful/inappropriate.

**Separating activities where distinct competencies are required**
- Improves managerial control.
- Helps to develop particular operational skills and competencies.
- Allows board to recruit members with appropriate skills and to focus on areas of interest.

**Reorganising as a consequence of growth – and separating activities where there is potential for floating off as independent businesses**
- Allows community groups to develop an enabling role; ‘promote and float’.
- Avoids internal empire building.

**Branding activities to respond to distinct market niches**
- Makes it possible to distance a product or service from main RSL identity.
- Allows an RSL to respond to distinct market/purchaser requirements (for example, locally specific names).
- Can provide a stimulus to performance.

**Managing risk**
- Allows the group to ring fence risk.
- Ensures that the finances of risky activities are separate and transparent.

*Source: Research team analysis of case study documents and interviews*
Changing structures because of growth

RSLs are dynamic organisations and can outgrow an existing structure. Care subsidiaries grew fast in some RSLs in the 1990s, and in two case study groups the managers and boards of RSLs responded to this growth by reorganising the groups. At East Thames Housing Group restructuring was carried out to clarify responsibilities within the group [CASE STUDY 11].

**CASE STUDY 11**

Clarifying responsibility within a group

The management and board members of East Thames Housing Group decided to restructure in 2001 to clarify a number of management issues and to improve governance. These issues were the results of earlier organic growth. They moved from a mixed group with an asset holding RSL parent to an ‘umbrella’ type with a non-asset holding parent.

<table>
<thead>
<tr>
<th>Issue</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Care staff had been in a care subsidiary on different terms and conditions from their managers, who were employed by the then parent RSL.</td>
<td>All care staff to be in one care subsidiary with a more specialist board; and moved to one set of terms and conditions.</td>
</tr>
<tr>
<td>Overheads were not related directly to services; so it was unclear how to judge some aspects of individual business performance.</td>
<td>Calculated overheads to clarify responsibilities and costs.</td>
</tr>
<tr>
<td>Duplication of certain services - for example, human resources departments in two places.</td>
<td>Restructure relevant services and move to one provider in some cases; reduce costs and improve service.</td>
</tr>
<tr>
<td>Uneven balance of power on parent board between subsidiaries; high overlap of board membership reducing focus; parent board having to be operational rather than strategic; subsidiaries lacking specialists.</td>
<td>Parent board now clearly strategic board; only chairs of subsidiary boards overlap, and subsidiary board members can focus on their business. New specialists recruited where relevant to help this focus.</td>
</tr>
</tbody>
</table>

Source: Research team based on discussions with East Thames Housing Group.
Ungrouping – floating off subsidiaries

108. The scale and labour intensive nature of social care can easily lead to a situation where the ‘tail is wagging the dog’. Care subsidiaries can grow to dwarf RSL parents in terms of staffing, and require distinctly different management competencies. If such activities continue to grow and do not have strong links with other aspects of the RSL’s business, there can be a strong case for floating them off as separate businesses. Portsmouth Housing Association claim a strategy of ‘promote and float’ – supporting a social business until it is able to stand alone, but not holding on to it if it is not core business [CASE STUDY 12]. At Kelsey Housing a successful care subsidiary was floated off as a separate business when it became so large that the parent RSL felt exposed and unable to concentrate on its own core business [CASE STUDY 13, overleaf]. Although the care subsidiary was not created with the idea that it would one day float off, Kelsey’s Chief Executive is a great believer in ‘focused businesses’ and could envisage the association creating another subsidiary with the explicit intention of one day encouraging it to become independent.

CASE STUDY 12

Using group subsidiaries to trial and then float off new initiatives – ‘promote and float’

Portsmouth Housing Association aims to use group subsidiaries as pilots to test new ideas. It sees its role as identifying community needs and supporting local responses, not as empire building. Some of these new ideas are defined as ‘promote and float’; the aim is to generate stand alone initiatives that benefit the local community, and consider floating them off as independent agencies. Other ideas defined as core business, for example, regeneration activities, would remain part of the group.

One example of a subsidiary that was floated off was the Southern Focus Trust, a care subsidiary. The Trust also wanted more freedom. Portsmouth HA also wanted to be able to concentrate on core business and attracting European funding to support regeneration activities. Floating off their care subsidiary made strategic and management sense.

Source: Research team based on discussions with Portsmouth Housing Association and Southern Focus Trust
CASE STUDY 13

Responding to change by floating off a successful care subsidiary

Kelsey Housing Association originally set up a care subsidiary to respond to the care needs of its own tenants. Expert advice led to a focus on services for people with learning disabilities. This was regarded as a secure niche market with relatively few not-for-profit competitors. A subsidiary allowed them to ring-fence the risks. The plan was to provide start up loans for the first two to three years. The subsidiary would eventually repay these loans in full to the parent. Separation also meant an expert subsidiary board could be recruited.

By 1998 Kelsey Care was growing at a rate of 25 per cent a year. It had taken on most of its own support functions (such as finance and human resources), and had a turnover that was rapidly approaching that of the parent. In 2000 Kelsey Care had a turnover of £10 million – the same as Kelsey Housing Association. It employed eight times as many staff but had no assets and operated with a surplus of just 1.5 to 2 per cent of turnover.

The Kelsey Care board wanted to attract some working capital and fund research and development. The main Kelsey HA board was concerned about possible regulatory problems and about risk exposure. Kelsey Care was highly vulnerable to purchasing decisions by social services and health authorities. On consultants’ advice it was floated off as ‘The Avenues Trust’ with some support from another RSL. Kelsey retains close links and has two of its members on the Trust board.

Comments from board members on the situation that developed included:

No-one realised how big it would grow.
It was amazing how well and how quickly the organisation developed.
The growth of Kelsey Care was phenomenal.
We began to realise that we couldn’t be in control of a subsidiary that had a larger turnover than the parent and was growing faster.
It was changing the nature of Kelsey HA.
Board meetings became more about Kelsey Care than about Kelsey HA.
This was a different animal to anything any Board members were used to.
It left us all very vulnerable to change – you can’t have an organisation where the tail is bigger than the dog.

Source: Research team, based on discussions with Kelsey Housing Association
The view that diversification increases risk has been restated recently in a report by the NAO on regulating housing associations’ management of financial risk (Ref. 9). Among examples of financial risks that RSLs might face, the report cites ‘the financial impact on a parent RSL of failure of subsidiaries; added managerial complexity and subsidiaries with financial problems might drain finances from other parts of the group, unseen by the RSL Board’. The report expresses concern that the risks arising from diversification did not feature prominently in RSL risk appraisals and that ‘many of the major lending institutions expressed concern that RSLs were diversifying without adequate preparation’. The Housing Corporation also has risk concerns linked to diversification: rapid growth in activity that is not social housing, or significant expansion of such activity in relation to total turnover, may trigger a review (Ref. 5).

Some argue that diversification can decrease risk exposure. Careful management of a mixed portfolio of activities, which make different demands on funds and have different payback periods, may help to spread risk. However, the experience and skills to establish and manage a ‘balanced portfolio’ will take some time to build and will not always be present when RSLs first diversify. Diversification into new areas of activity is likely to increase risks initially. When an RSL or group is building on existing strengths and expertise – for example, a sheltered housing specialist looking at care services for older people – the risks may be relatively low.

**Is a group structure necessary to improve management of risk?**

There is no agreement about whether the risks associated with new activities are best managed by a group structure or by keeping new activities in-house. Some RSL managers believe that group structures help them to manage risk (CASE STUDY 14, overleaf). They argue that specialist subsidiaries can:

- **increase transparency.** Poor financial or managerial performance can be more easily isolated and highlighted in a separate legal entity; the separate accounts necessitated by a subsidiary will ensure financial clarity.

- **make it easier to employ managers with the appropriate skills and expertise,** and to find board members with an understanding of the area. Both should reduce the likelihood of failure.

- **make it easier to close down or float off a subsidiary that is failing or would clearly do better with a different partner.**
But others argue that risk management works more effectively within a unitary structure than in a group. Some of those interviewed placed great emphasis on the need for central management to be able to control risk through direct intervention in any part of the business. In the view of one interviewee, ‘the board can have greater control over … diverse activities if they are in-house than it would have if they were operated by subsidiaries’. Being part of one larger organisation could also make it easier to pool, mitigate and absorb risk. A separate subsidiary can:

- be too easily ignored – ‘out of sight, out of mind’ – and if senior managers are not directly accountable then they may miss warning signs.
- be a barrier to management control, especially if tensions arise between managers and board members at subsidiary and parent level.
- mean a less effective board – recruiting enough knowledgeable individuals with the time to spare is not easy. Frequently, many subsidiary board members are also on the parent board; a second board simply increases the demands on their time and may weaken one or other of the two boards if that time is not available.

In addition, despite separate accounts there may still be hidden subsidies and associated problems, for example, through the way that the group deals with shared overheads and intra-group charging.

**CASE STUDY 14**

Managing diversity and risk through a group structure

Having a specialist subsidiary with a separate legal status and separate accounts can help a board to monitor risky activities. It may also be seen as a stimulus for management to perform well.

- East Thames Housing Group and Portsmouth Housing Group set up subsidiaries to develop and run foyers. This was seen as a risky activity because it was a new area. (East Thames commented that a subsidiary would help manage risk in this new and developing area, and allow for potential growth in the longer term).
- New Charter and Portsmouth set up building company subsidiaries (as opposed to a DLO within the RSL) because of the perceived risk of the activity. Both also recognised the danger of the RSL subsidising the building company if accounts were not clearly separated.
- In the Kelsey case study, risk management was a significant factor in the original establishment of a care subsidiary and the subsequent decision to float it off.

*Source: Research team, based on discussions with East Thames, Portsmouth, New Charter and Kelsey*
...a group structure would not absolve the parent from supporting a subsidiary if that organisation fails.

Risk exposure

114. When a separate company or an industrial and provident society is formed with limited liability, its members are not liable for its debts or other obligations beyond the amounts that they have agreed to contribute (for example, the amounts of their guarantees in the case of a company limited by guarantee). The same applies when a company owns or controls a subsidiary company. Control by a parent, even 100 per cent control, does not make it liable for its subsidiary’s debts or other obligations. So, in theory, putting risky activity into a separate and subsidiary company should protect the parent RSL. But parent RSLs are, in effect, honour bound to meet these obligations. Managers in all the case studies believed that a parent cannot avoid moral responsibility for the activities of subsidiaries; a group structure would not absolve the parent from supporting a subsidiary if that organisation fails. Some made a virtue of the ability of parents to stand behind and turn around subsidiaries that were in difficulties. Groups may sometimes be a better way of managing risk; but none of the groups visited believed that they actually reduced exposure to risk.

Conclusion

115. The desire to carry out activities outside a narrow concentration on social rented housing has been a major reason for the setting up and development of groups. Managers have also found that a group structure can be a useful framework for organising diverse activities. The managers of each subsidiary can concentrate on their specialism and focus on their own finances, and some believe this focusing also reduces financial risks. However, RSLs that prefer not to group believe that risk can be equally minimised by ensuring that senior managers are directly responsible; separate subsidiaries may, they argue, make it easier for problems to be overlooked. It is not clear which approach is right; there is no clear evidence that group structures make a difference to RSL risk management.

116. Before a new group is created or an existing group is reorganised, managers should think carefully about why they want to diversify and about how well the existing management and governance arrangements work in managing existing diverse activities. The benefits of using a group structure will vary according to the nature of any non-core activity, the reason for pursuing it, the speed with which it is likely to grow, existing structural arrangements, the current views of regulators, management preference and the views of existing or potential funders.
How can RSLs best use groups to expand activities and to manage diversity?

RSLs should:

Be clear about the main reason(s) for choosing to diversify; the reason may help determine the most appropriate structure. For example:

- **diversifying to meet identified tenant need?** (For example, care or skills training needed by tenants). If so, close links with existing housing managers and tenants will be needed.
- **increased turnover?** (For example, exploiting an identified niche in the market that is not linked to the needs of existing tenants). A separately staffed and managed subsidiary can develop that niche while allowing existing managers to remain focused on tenants’ needs.

Decide whether current regulation makes a subsidiary a necessary or appropriate option for extra services.

- If the extra activity is one that is not currently permitted then a subsidiary may be the only option. (For example, if an RSL has charitable status and the Charity Commission considers the extra activity non-charitable).
- If the extra activity is expected to exceed 5 per cent of turnover and to grow fast, a subsidiary might better fit the current regulatory requirements of the Corporation.

Assess the efficiency, clarity and effectiveness of existing management and governance arrangements for any non-core activities.

If non-core activities were re-organised into a (new) group structure:

- would the split of responsibilities be clearer for tenants and staff?
- would board business be better managed?
- would responsibility for risk management be clearer?

Consider the links between core activities and any proposed new activities.

- If new activities closely overlap with current core activities there may be benefits to keeping them ‘in house’.
- If new activities are very different existing managers may not have the skills and competencies needed to make the new activity a success; a new subsidiary and a new board may make it easier to recruit people with the necessary skills for success.

Ask for and consider the views of existing or potential funders.

- Will it be easier to raise funds for a desired new activity if it is in a separate subsidiary?
- Would funders prefer existing senior management at parent level to have direct responsibility?

Ask for and consider the views of tenants.

Review the managerial advantages and disadvantages of a specialist new subsidiary.

- Will a separate subsidiary in this case give staff greater performance incentives?
- Will these activities benefit from being located in a specialist unit/centre of excellence where a separate and relevant ethos, and distinct competencies, can be nurtured and develop?
- Will these activities benefit from being accountable to a special purpose subsidiary board?
- Will it help to manage risk by giving clearer financial and performance information?
CRITICAL SUCCESS FACTORS RELATING TO DIVERSIFICATION (CONTD)

Alternatively:

- Are there advantages to tenants and staff in ‘joining up’ diverse activities with locally based housing and neighbourhood management rather than forming a group?
- Will activities benefit more from being accountable to a locally based generic management board (that is, local rather than functional accountability)?
- Will it be possible to recruit people with the appropriate specialist skills for a new board?
- Will keeping a new activity in-house reduce complexity?
- Is an activity so risky that it may benefit from direct central board and management attention?

Might there be benefits from floating off the activity now or if it grows larger?

- Does the group gain from diverse membership, or is it losing focus without any obvious compensatory benefits?
- Has any non-core activity grown too large? Is the group financially over exposed?
- Would a separate subsidiary make potential floating off easier to achieve?

For any diversification consider risk management.

- Will any envisaged group structure ensure that allocations of activities and overheads are transparent?
- Is it clear which managers and board members have the skills to take on responsibility for any increased risk – and are they willing to take on that responsibility?
Accountability issues for groups

It is particularly important to involve tenants and communities in decisions to set up groups and in ongoing group decision making at all levels. Accountability between group members also needs planning; it is possible to have tight parental control or a much looser arrangement.
The first part of this chapter looks at the accountability of RSL groups to their stakeholders; especially tenants, communities, local authorities and other funders. It considers:

- who is involved and consulted about moving to or changing a group structure;
- how well changes and resulting group structures are explained;
- comparative accountability arrangements;
- accountability issues for tenant and local authority board members; and
- the need to enhance transparency and accountability, especially for tenants and local communities.

A new group structure also sets up revised patterns of accountability within a group. Some groups make claims for parity between all members. However, both Housing Corporation regulation and the realities of power distribution mean that this is rarely the case. There is a range of options, from tight control of all subsidiaries by the parent to looser associations. Previously independent subsidiaries may be held to account for their performance by parent boards, which may also appoint some or all of the subsidiary board members. Parents may be held accountable for central services through formal service level or intra-group agreements. Groups need to consider the most appropriate internal accountability patterns and ensure that they have the necessary legal documents and working arrangements in place. The second part of this chapter looks at:

- the role of formal agreements;
- the requirements of regulators/funders;
- tighter or looser control of subsidiaries by parents; and
- how group parents are held to account by other organisations within the group.

The fieldwork undertaken for this report included interviews and focus groups with tenants, board members, Housing Corporation lead regulators and some local authority representatives, as well as analysis of group documentation. Eleven of the fieldwork sites raised questions of accountability, and it was a major theme in seven of these. Issues considered covered both internal governance arrangements, including accountability mechanisms between parents and subsidiaries, and steps that groups had taken to make their structures and operations more accountable to tenants and other external stakeholders.

Fieldwork concentrated on tenant accountability, but it is important that groups also consider other stakeholders when restructuring; other service users, funders and other partners, in particular local authorities, have a legitimate interest in a change of structure where this alters accountability.
Consulting about moving to or changing a group structure

121. RSLs are obliged in general terms to consult with tenants and leaseholders about moving to a group structure (Ref. 3). They have to specify the service delivery benefits expected from a group in their business case. But they do not have to involve tenants in drawing up proposals, or formally test tenant opinion on these proposals. The limited requirement for tenant involvement is in contrast to the requirements placed on local authorities prior to stock transfer. As a result, tenants may be fully involved in a decision to transfer from a local authority into an independent RSL but then have very little involvement in a subsequent major decision to join or create a group structure. However, some RSLs do consult widely; a good example involved the merger of two existing RSLs that produced the new Yorkshire Community Housing Group [CASE STUDY 15].

CASE STUDY 15

Keeping tenants informed and involved in a move from two separate RSLs to a group

Yorkshire Community Housing Ltd was formed following a merger between Yorkshire Metropolitan Housing Association (YMHA) and Ryedale Housing Association. The aspect of the change that directors were most proud of was the way in which the tenants and shareholders were consulted. Tenants were informed about the group structure and merger proposals through two ‘Independent tenants advisers (ITAs)’ acting for the tenants of each association, and the issue of three newsletters. Tenant board members were involved in the discussions and in preliminary meetings between the two associations. There was a joint tenant conference to discuss the issues raised by tenants at which the only outsiders present were the independent advisers and the two chief executives. There were workshops on rents and service charges, maintenance, housing management and tenancies and tenant/shareholder participation. Tenants made it clear that things were moving too fast. The two respective boards responded by slowing down the timetable, so that tenants had enough information before the ballot. While only shareholding members of the associations were able to vote on the proposal, tenants were encouraged to become shareholders and vote. The key message for tenants was that there would be no change in the housing service, but there would be smaller rent rises and more money for stock improvements as a result of savings on borrowing and tax.

Votes at meetings were overwhelmingly in favour of the merger (98 per cent ‘for’ at two YMHA meetings, 80 per cent ‘for’ at the Ryedale meeting). One of the two independent advisers reported that:

Many factors contributed to this positive vote. From the tenants’ point of view… trust was secured between the tenant advisers, Ryedale Housing Association staff, board members and the shadow board of the parent company One of the main lessons has to be that tenants need to be consulted with as much detail and time as possible.

Source: Research team, based on discussions with Yorkshire Community Housing Ltd

1 An ITA is an individual consultant with an understanding of housing issues from outside the local authority or RSL, employed to give the tenants independent advice and guidance.
Group structures are usually more difficult to understand than single purpose RSLs; and governance arrangements are generally less transparent.

How well are group structures explained to stakeholders?

122. Group structures are usually more difficult to understand than single purpose RSLs; and governance arrangements are generally less transparent. This may make it harder for tenants and other stakeholders to get effectively involved in questions around frontline services, and causes particular difficulties for involvement in strategic decisions. Comments made by tenant representatives on case study visits showed that new group structures were often only partially understood. There was not always clarity, for example, on what the powers of different subsidiary boards and panels were. This made it harder for tenants to know what issues should be raised where. Only a few groups visited by the research team had written information clearly describing the way in which the group worked. A previous study found that: ‘Only a handful of groups had taken the opportunity to produce information sheets/packs which set out in clear and understandable language what the group structure entails and what it is trying to achieve’ (Ref. 2).

Comparative accountability arrangements

123. Any large RSL, whether or not it is organised as a group, needs to be accountable to tenants at a local level and to allow tenants to comment on and influence strategic decisions that are made by the whole group or national RSL. There is no evidence that groups are more or less accountable than single RSLs, or that structuring a group in a particular way automatically delivers better accountability. The key is not the structure but the intent, and the systems that promote accountability.

124. For example, in one geographically spread group there was a system of local tenant boards. But tenants from these boards could not sit on the parent board – and all board members at all levels were appointees. By contrast Sanctuary, with 30,000 homes spread nationally, has, to date, been managed as a single organisation rather than a group – but has had a governance system that is accountable locally. In addition to local management offices and local area committees, current governance arrangements include five regional constituencies that then elect members of the main board (known as the Central Council). The remaining places are filled with independents, appointed because of their specialist contributions.

125. No single model of accountability is ‘best’; it is possible to have more than one model within one organisation to fit different circumstances. The Peabody Trust offers a variety of accountability arrangements, including two different models for transferred stock [CASE STUDY 17, overleaf].
Peabody has taken a number of stock transfers in-house. While most local authorities tend to like the idea of a new RSL being set up, Peabody believe that tenants involved in transfer decisions are attracted to the Trust’s experience of estate management and its use of a direct works force and caretakers. This is seen as Peabody’s unique selling point, contributing to the effectiveness of the Trust’s regeneration activities. Although stock ownership and management is normally ‘in-house’, local accountability is still important. Following an ERCF transfer of ten small estates in one neighbourhood, an area committee of 16 tenants and leaseholders was set up, representing all the blocks on the estates. It meets every three weeks to discuss issues relating to housing management and maintenance. The Trust confirmed that it would always expect to create such a structure when it took a stock transfer in-house. Consultation on the major works programme for the estates takes place separately but is linked; the Trust’s internal project group includes a member from the area committee.

Where the transfer of stock was larger and the local tenants wanted to maintain their existing autonomy Peabody set up a subsidiary – Waltham Forest Community Based Housing Association (WFCBHA). The Housing Action Trust that preceded WFCBHA was tenant-led. Tenant board members of WFCBHA feel strongly that accountability to tenants is greater because it was set up as a subsidiary of Peabody rather than being absorbed as an in-house operation. This enabled them to retain the tenant-led nature of their board (ten of the fifteen members are tenants, plus four Housing Action Trust nominees and one Peabody trustee). Peabody agreed to this more devolved approach because of tenant preference, the local history of greater self-management and because the number of units involved was larger.

Source: Research team, based on discussions with Peabody Trust and the WFCBHA
Accountability issues for tenant and local authority board members/directors

126. Where a stock transfer takes place, the most common pattern of board membership in a new RSL is one-third tenant, one-third local authority and one-third independent. This makes the ‘tenant director’ approach widespread in such RSLs, whether or not they are involved in a group; such individuals can play an important role in promoting local accountability to all tenants.

127. However, appointing tenants and local authority members to group boards does not necessarily make an organisation accountable to either tenants or local authorities. Tenant or local authority board members are not ‘representatives’; they have the same legal responsibilities to the RSL as other board members. They can use their role to put the viewpoint of a local authority or particular tenant group but, legally, should vote in the interests of the company (the RSL). New Charter Group is exploring the potential difficulties that tenant board members can face [CASE STUDY 18]. Tenant board members/directors are not a substitute for reporting back to, and considering the views of, all tenants and service users; this job cannot be left to a few tenant board members alone, especially in large RSLs.

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CASE STUDY 18

Developing the role of tenant directors in a group structure

Having elected tenant board members at both subsidiary and parent board level is one way of ensuring group accountability. The position is a demanding one. New Charter has constituency boards for each of its member RSLs. There are four tenant board members (known in New Charter as directors) on the North and South Subsidiary Boards; the Chair of each is a tenant. There are three tenant directors on the parent Board – two nominated by North and South, the third by the Tameside Tenants’ and Residents’ Federation. The first tenant directors were elected by some 200 tenants at a public meeting held at the start of the transfer process. Full elections to all tenant director positions were held during 2001 under the auspices of the Electoral Reform Society.

Tenant directors ensure that tenants are part of the group’s governance structures, and provide a valuable channel for accountability. Tenant directors are sometimes in a different position from other directors, and this needs to be thought through locally. Several issues have arisen at New Charter:

- Training is especially important for tenant directors if they are to play their full part from the start. At New Charter, tenant directors were provided with some separate training at the beginning. A full programme is now being developed for all directors.
- Democratic elections for tenant directors can lead to the loss of experienced directors when they could still make a valuable contribution to the board. Some were lost in the 2001 elections. It is hard to balance democratic elections with building boards that encompass a mix of skills. Elections for tenant directors also introduce differences in that directors in other constituencies are generally not subject to election.
CASE STUDY 18 (CONT'D)

Developing the role of tenant directors in a group structure

- It is not always clear how far tenant directors are ‘representatives’ of the tenants who elected them. How far can/should they put forward views as representatives, and how far can/should they provide feedback to other tenants on board deliberations? Whatever the legal position, this can be a dilemma for both elected tenant directors and (at New Charter) the Federation nominee.

- Groups need to be clear about how tenant directors relate to other formal tenant representational structure(s) who could have an agreed role at board meetings in their own right.

In some transfer areas, especially neighbourhood regeneration/ERCF areas, the landlord may be one of the main local trainers and employers. Many employees of the landlords are also likely to be tenants. This raises potential conflicts of interests that need to be discussed and clarified:

- whether tenants who are also employees can become board members;
- how long individual directors may have to stand down before applying for a job/support for training with the landlord; and
- what restrictions (if any) there will be on family members applying for training support or jobs with the landlord.

Being a tenant director is a heavy commitment of time and energy. Tenant directors and their families face pressure from neighbours and other tenants that are not experienced by all board members – although some local authority members may also be tenants and face similar pressures. It is important for groups and individual RSLs to consider carefully how tenant board members can best be supported.

Source: Research team, based primarily on discussions with New Charter Housing Group
Unfortunately some new and restructured groups reduce tenant accountability.

Enhancing transparency and accountability to tenants

128. A wish to improve accountability is rarely the main motive for setting up a group, though where management and boards are altering a group structure to improve governance this generally also clarifies accountability. Unfortunately some new and restructured groups reduce tenant accountability. Some are making a very clear separation between strategic decisions (to be made by the parent) and customer and community consultation and involvement (to be focused on subsidiaries, often through separate customer involvement strategies). Accountability to tenants and communities is then seen as something for service provision subsidiaries only. This can be deliberate; in one case study a board member commented that tenants of the subsidiary RSL ‘know little and care less’ about the group parent. He went on to say that this was precisely the intention of the new arrangements.

129. This is a worrying development that decreases transparency and accountability in RSL governance and runs counter to the Housing Corporation’s promotion of increased accountability through tenant compacts and best value. True accountability includes the involvement of tenants in setting strategic priorities, as well as in monitoring service delivery. It is an issue that group boards should consider carefully and that the Corporation may wish to take up in some cases.

Enhancing accountability to local communities

130. One or more of the subsidiaries in a group structure may be providing non-landlord services, often to individuals who are not themselves tenants of a group member. Usually there is a clearly identifiable set of service users – for example, those receiving support from a care subsidiary – so it is clear which users need to be involved in any specific arrangements that are made. A number of RSLs are currently getting involved in neighbourhood management and similar local initiatives as part of regeneration policies, stimulated in part by the Neighbourhood Renewal Strategy (Ref. 11). Neighbourhood management implies accountability to a community rather than just to tenants or immediate service users. It is less clear who should be taken as representative of a local ‘community’ or ‘neighbourhood’, but setting up accountability arrangements will be very important if these neighbourhood approaches are to work. Prime Focus was developing one idea that attempts to address this with a community board structure for a new Housing Regeneration Company [CASE STUDY 19, overleaf].
Relationships between group members are dependent on both legal and operational agreements and on how they work in practice. Some groups claim to have relative equality between all members, but in all cases freedoms for individual members have to be balanced with the requirements of regulators and funders, the needs of other group members and the overall policy aims of the group. All group members have to give up some freedoms in order to gain collective benefits. The extent to which subsidiaries are free to pursue their own policies varies; there is a spectrum of control from ‘tight’ to ‘loose’. The balance may need to be modified by the parent/group as subsidiaries grow, as new members join or as group policies change. Although the parent will always have ultimate legal control there are different ways in which parents can be held at least partially to account by subsidiaries. Accountability between subsidiaries is also important, especially where they purchase services from each other.

### CASE STUDY 19

**Accountability to mixed tenure communities**

Prime Focus wants to improve accountability at neighbourhood level. One idea is a pilot Housing Regeneration Company in Foleshill, Coventry. The Housing Regeneration Company (HRC) will work with an ethnically diverse population in a mixed tenure area. The idea is to use it as a model for accountability for neighbourhood regeneration elsewhere. It is a wholly owned subsidiary of Focus Home Options, with a company board comprising:

- an independent chair;
- Focus and other RSLs;
- a local authority representative;
- an SRB partnership board representative;
- local residents’ representatives (including BME community representatives);
- a local commercial business representative; and
- a voluntary or faith community representative.

*Source: Research team in consultation with Prime Focus Housing Group*
Formal legal and operational agreements between parents and subsidiaries

132. Internal accountability relationships are usually regulated by legal agreements, including intra-group agreements, service level agreements, procedural agreements and board and committee terms of reference and delegated powers. Legal agreements are essential to protect the interests of parents and subsidiaries and to define the ways in which common forms of dispute will be resolved. Such documents, including specific rules for each subsidiary, are also a requirement of external stakeholders with an interest in seeing the effective and efficient operation of groups. These include the Housing Corporation and funders. Legal documents rarely include an overall account of what the group is for or how it functions, and they are rarely easy to read (Ref. 2). A clear statement of the inter-relationships between group members can be useful; an example is that developed for the New Charter Group [CASE STUDY 20]. This group has a relatively ‘loose’ agreement in some areas – subsidiaries have freedom to manage their own business within overall group policy, and to appoint some parent board members. However, the parent has the power to step in and take decisions if it feels that this is necessary; and there are significant financial constraints on the ‘exit clause’.

CASE STUDY 20

Extracts from an intra-group agreement

The intra-group agreement (IGA) sets out how the group will work and the relationships between group members. Important provisions include:

(a) No amendment to the parent constitution without consultation according to agreed procedures.
(b) Subsidiary boards will nominate directors to the parent board, in accordance with any guidance from the parent regarding the skills and experience needed, and discussion with other subsidiaries.
(c) The parent shall consult all members before creating a new group or admitting another member.
(d) The parent has the power to appoint members to, and remove members from, subsidiary boards, but agrees to exercise this power only in specified circumstances when there has been some breach by the subsidiary.
(e) The parent has the power to create group policies (subject to consultation) as it considers appropriate. Subsidiaries carry out business in accordance with group policies. A subsidiary may apply in writing to change any group policy and the parent shall act in a reasonable manner in considering such requests.
(f) The parent confirms that subsidiaries each have primary responsibility for all aspects of their business of an operational nature and that each board has the right (as well as the obligation) to manage the subsidiaries’ business in accordance with:
• its objectives;
• its business plans and budgets as agreed with the parent; and
• the overall business and financial strategy for the group, set by the parent.
(g) Each group member agrees to:
• contribute to the corporate goals, visions and values of group as adopted by the parent Board;

CONTD
In practice, legal agreements are often only used when something goes wrong. Operational service level or intra-group agreements can be more important. These will work best if they address practical issues that are encountered in the day-to-day operation of the group and are understood and ‘owned’ by staff in both the group parent and its subsidiaries. One way of achieving greater ownership is to involve staff who both provide and use central services, in drawing up preferred service specifications and standards. This is more likely to result in agreements that reflect reality than a centrally drafted legal agreement; but it can also take time. In one case study group, local agreements were worked through in detail with staff at both the centre and the subsidiaries; they went through at least seven drafts. This created problems with the Housing Corporation, which wanted group procedures in place early. The balance between full staff involvement and time is one for individual groups; it may mean delays in formal registration.

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\[\text{Source: Research team.}\]
The requirements of regulators and funders

Groups are not completely free to determine their own internal power relationships. They have to note the requirements of the Housing Corporation, their own funders and, in certain cases, the Charity Commission and the Inland Revenue.

- **The Corporation** requires clear and explicit controls to be put in place by parents, including controls over the governance and management of subsidiaries. Such controls are expected to enable the parent to manage financial risk and to ensure that subsidiary RSLs comply with the Corporation’s regulatory code and can influence the shape of a group [BOX I].

- **Funders** expect to see effective controls to protect their investment in an RSL and to manage potential risks in subsidiaries. Where a lender has lent against pooled assets, individual group members cannot unilaterally pull out. Hence, for example, there are financial caveats in new stock transfer group structures that concern subsidiaries’ ability to leave the group (see Case Study 20, page 77).

- **The Inland Revenue** requires a parent board to retain the power to appoint and remove board members of subsidiaries where a group wishes to register as a VAT group.

- **The DTLR** now provides guidance for large transfer RSL group structures. This includes minimum requirements on subsidiary autonomy (Ref. 17).

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**BOX I**

**How regulation can change planned power balances**

One case study group had wanted maximum autonomy for two geographical subsidiaries, with pooled assets at group level. The original aim was for two RSL subsidiaries. In this case the Corporation would not agree to register as RSLs the non-asset holding subsidiaries of an asset holding parent. Once the group was established, the RSL parent had to account to the Corporation for the performance of the subsidiaries. The result was a greater degree of central parental control than had been intended.

*Source: Research team.*
High levels of apparent central control could be associated with considerable devolution of decision-making to subsidiaries.

**Tighter or looser control by the group parent**

135. The most common pattern of power relationships within groups is for a high level of legal control by the parent. In most case studies these controls were regarded as ‘reserve powers,’ to be used only if and when difficulties arose. The way groups operate in practice is often at variance with their legal documentation. High levels of apparent central control could be associated with considerable devolution of decision-making to subsidiaries. In one case, agreements made provision for subsidiaries to operate with a high level of autonomy, but the group actually operated a ‘one company’ policy because this was the preference of both subsidiaries and the parent.

136. There is no perfect balance between a group parent and subsidiaries; it will depend on the aims of the group [EXHIBIT 13]. A framework for effective control is normally set by the power of the parent to:
- appoint and remove members from subsidiary boards;
- create group policies and a group business plan and budget which subsidiaries have to abide by and work with; and
- approve or revoke subsidiary business plans and budgets.

Examples can be seen in Case Study 20, page 77.

137. Common additional controls are parental ownership of group assets, direct employment of staff by the parent and a requirement for subsidiaries to take central services from the parent.

**How parents can be held to account by subsidiaries**

138. Group agreements normally include provision for subsidiaries to hold the parent to account. The principal mechanisms are formal intra-group agreements about service levels and allowing subsidiary boards to select some or all the members of the parent board. The ultimate test of parent accountability is perhaps the ability of members to withdraw from parentally provided central services, or even from a group. So a key clause in any agreement is the one relating to exit or de-merger opportunities for subsidiaries. Where there is a consolidated loan package based on pooled assets it is, in practice, difficult for a subsidiary to leave, especially if they have to pay any consequential costs for the remaining group members. Some groups may present themselves as ‘partnerships’, with the implication that the partnership may come to an end and the partners move on; but unless it is genuinely possible for a partner to leave then they are closer to being amalgamations or mergers.
The ways in which group parents maintain controls over subsidiaries

There is no perfect balance; it will depend on the aims of the group.

Source: Audit Commission
Accountability between subsidiaries

139. In most groups, uneven power between subsidiaries reflects the uneven size of partners. Fieldwork found three common variants:

- Some groups are dominated by one large RSL that is either the parent or the founder of a group in which it is still the largest member;
- Some groups have two relatively even-sized RSL members, perhaps formed as an alternative to merger; and
- Some groups have one or more reasonably large non-RSL subsidiaries, usually as a result of a smaller subsidiary growing, or of an internal division being reorganised into a separate organisation.

Groups that are dominated by one parent/large partner

140. In many groups there is little distinction between the identity of the largest partner and that of the group as a whole. In these groups, accountability between subsidiaries, as opposed to between the dominant group member and/or parent and the rest, is not greatly developed. Even where these groups have an umbrella, non-asset holding parent, the ‘founder RSL’ still dominates as the largest group member. Parent functions are set up and staffed predominantly by those who previously provided these functions within the founder RSL. In some cases the parent company has few employees; in others it ‘seconds’ most staff back to the main group member. Former members of the founder RSL board dominate the new parent and subsidiary boards. Some of these umbrella groups have been set up with the aim of attracting in new members; this may result in a shift in power in the future if new joiners are themselves reasonably large.

Groups with two relatively even-sized RSL members

141. Among case study groups, it was those with the most even size balance between subsidiaries, such as the Yorkshire Community Housing and Longhurst Groups, that made the greatest efforts to achieve genuine federal relationships. The former involved two fairly large existing RSLs jointly creating a new group; the second was formed to bring a management contract organisation in-house, creating two subsidiaries of roughly equal size. There was considerable emphasis on the group as a ‘partnership of equals’.
Groups with one or more large non-RSL subsidiary

142. Where case study groups had been set up, or had their structures amended for management reasons, it was often because the growth of non-core activities required a change in governance arrangements and perhaps a more equal partnerships (See chapter 4). Managers in these cases wanted to clarify the roles and responsibilities of group members. Aims included:

- streamlining decision making;
- allowing parent boards to focus on strategic issues; and
- enabling subsidiaries to develop a more distinct identity and greater accountability for their own performance.

143. Both Amicus and East Thames recruited new board members to strengthen the new parent and subsidiary boards when they reorganised. However, both encountered some teething problems as board members got used to the new roles and relationships. Changing governance arrangements is not painless.

Conclusion

144. Managers who are considering setting up a new group or amending an existing one need to examine a number of accountability issues. It is particularly important to consider the interests of tenants and communities; there is evidence that they have not always been fully involved in the past and that some changes have resulted in less accountability to tenants, especially for strategic decisions. The formation of a group can be used to improve accountability to tenants. The wide consultation and vote that accompanies a stock transfer is a particularly good example to work from.

145. Accountability between group members also needs planning. This involves both formal agreements and, more importantly, considering the way that things work in practice. Groups have to work within the constraints of regulators, but working arrangements can still allow subsidiaries considerable freedom if that is the joint aim of all group members. Where a group is expected to grow, these internal arrangements may need future revision. Groups that wish to grow but, as yet, do not know who may join them cannot plan perfectly. A willingness to be flexible according to circumstances, and to change arrangements where appropriate, is as important as the actual starting structure.
CRITICAL SUCCESS FACTORS RELATING TO ACCOUNTABILITY

RSLs should aim to improve accountability to tenants, communities and funders. The importance of internal group arrangements between the parent and subsidiaries should also be considered from the start. These areas should be considered for new groups and for group rearrangements.

Make better accountability a specific aim when setting up a group, while establishing a group and once the new group starts its work.

a) When considering setting up a group:
- recognise that groups are more complex to understand and can be more difficult for tenants and communities to influence than non-grouped RSLs;
- make improving accountability a specific aim;
- produce and distribute clear information on why a group is proposed and on how the group would work;
- consider providing tenants with independent adviser(s);
- give tenants a say in the decision to establish a group; and
- find out what major funders and principal local authority partners think.

b) If agreement is reached to go ahead with a new group:
- consider the most appropriate structures to enhance accountability. (Is a separate subsidiary really the answer – is this what tenants and communities want?);
- provide opportunities for tenant involvement at all levels of governance, including the strategic level (and if necessary, build capacity for tenants to take up these opportunities);
- do not expect tenant board members/directors to be the sole conduit for tenant accountability;
- where the RSL group is a major local trainer and employer, consider what this may mean for tenant board members and their families; ensure that everyone is aware of the agreed policies on conflict of interest before elections/appointments;
- do not expect local authority member board members/directors to be the sole conduit for accountability to the local community and/or local authority; and
- where neighbourhood regeneration initiatives are planned, devise ways to ensure accountability to those neighbourhoods and communities as well as to tenants.

c) Once a new group is set up:
- continue to provide clear written information to tenants and external partners on how the group works;
- don’t keep the workings of the parent a secret;
- recognise the likelihood of teething problems among new and existing board members – new roles will need time to evolve; and
- appropriate training is useful for existing, as well as new, board members.
Plan for accountability within groups.

a) Adequate legal documentation is important:
- to protect the interests of all parties;
- to provide for resolutions to disputes and difficulties; and
- to provide a transparent picture of how the group is to work that can be understood by tenants, external partners and staff involved in day-to-day operations.

b) Consider external accountability to relevant regulators and funders; intra-group arrangements must ensure that the parent can:
- properly account for the performance of the group; and
- effectively manage risk across the group.

c) Balance the advantages of full staff involvement in planning and writing SLAs with the time that is available.

d) Decide early on the balance of power between parents and subsidiaries:
- is it necessary for the parent to directly control assets, employment and operational policy?
- how much choice will subsidiaries have on purchasing central services?
- how will subsidiaries be able to hold the parent to account?
  - ✓ through board membership; and/or
  - ✓ through procedural and service agreements?
- can subsidiaries ‘exit’ the group?

Amending existing relationships.

A restructure, especially into an ‘umbrella’ group structure, may offer improvements and a more equal status for existing and new subsidiaries. RSLs should decide whether the principal concern is to amend existing unsatisfactory relationships or to attract new members.

When amending existing relationships to offer improvements, remember that:
- joint borrowing, or pooled central services, may increase efficiency but reduces independence and tends to lock members into a group;
- if successful subsidiaries want to be able to leave the group, care is needed on joint funding; plan for looser structures that will make ‘floating off’ easier; and
- moving to an umbrella structure will normally mean changes to the roles of existing board members and to some senior staff; be prepared for tensions during the period of change.

When amending group relationships to attract new partners you should set clear deadlines on how long you will wait before firming up the new structure:
- giving potential new partners a genuine say in a new structure may encourage them to join, but will mean an uncertain starting point and may delay other gains;
- there is little advantage in renegotiating loans or making major changes to central services more than once; and
- leaving decisions unresolved may be unpopular with regulators, staff, tenants and funders.
Group regulation

Different regulations are appropriate for different situations. Clearer planning and more communication between RSLs and the Corporation would help smooth new group registration.
Introduction

146. Groups need to register with the Corporation, and have to take into account the requirements of the Housing Corporation when setting up internal control structures. Different elements of groups may be subject to different regulators – groups need to consider the different constraints that apply when choosing the most appropriate regulator(s) for a subsidiary. Group structures create new regulatory issues for the Housing Corporation: particularly the interaction between regulating and inspecting a group and regulating the individual entities that make it up. One developing issue here is the extent to which the Corporation is using groups to take on a greater regulatory role by overseeing weaker RSLs who may join a group.

Avoiding or complying with regulation

147. For many years, RSLs have set up new, separate subsidiaries to undertake new activities that fall outside ‘permitted purposes’ (see chapter 2). In some cases these structures have subsequently become unnecessary, as the boundaries of permitted activities change. ‘Regulating a Diverse Sector’ has again shifted the boundaries of ‘social housing’ to include a wider range of activities (Ref. 5).

148. There is a distinction between setting up subsidiaries to avoid regulation and the establishment of groups to comply with regulation. Two current examples of the latter are free standing stock transfer groups and Scottish subsidiaries. In these cases local authorities and RSLs established groups/subsidiaries not because there was a business case, but because it was a requirement to do business. There are policy implications here for both regulators and local authorities/RSLs. If local authorities/RSLs in general do not see any advantages to establishing a group, then the rationale for a policy that requires them to do so may need to be reviewed by the Government or by the relevant regulator. The need to consider a whole group approach to regulation in these cases was raised in chapter 3. Equally, if local authorities/RSLs decide to go ahead because they want to do business in the area concerned, they need to take advantage of any ‘imposed’ structure to make it work as well as possible.

149. Historically, Sanctuary had a strong preference for a unitary structure, but wanted to work in Scotland. To access grants in Scotland it had to establish a Scottish-based subsidiary registered with Scottish Homes. It used the requirement positively to establish local credentials and to create a more effective subsidiary [CASE STUDY 21, overleaf].
Choosing a particular legal and constitutional structure determines which regulators an organisation will have to deal with. Different legal statuses may also have implications for the operation of the organisation and its ability to compete in different markets. There were four examples in case study groups:

1. Interaction between charitable status, permitted purposes and tax. Charitable status can reduce tax liability but introduces an additional regulator (the Charity Commission) with additional requirements and greater restrictions on permissible activities. Currently three-quarters of all RSLs are registered as charities.

2. Among the case studies, stock transfer subsidiaries preferred ‘company limited by guarantee’ status because this makes it easier to adopt a constituency-based approach to board membership, compared to ‘industrial and provident society’ (I&P) status.

3. Certain types of legal status are more recognised in certain markets; Kelsey Care found that I&P status was a disadvantage in the care world.

4. Some of the older established RSLs have their own individual historic trust deed, and governance by trustees. This may either limit or support them in carrying out wider activities. An example is Peabody; its registered charitable purposes have always been much wider than housing and its endowment and assets have provided it with the ability to adopt alternative approaches.

### CASE STUDY 21

**Making the best of a regulatory requirement: Sanctuary in Scotland**

Sanctuary had to set up a subsidiary in order to expand into Scotland. It made full use of the process to establish local credentials and credibility.

Scottish Homes, the relevant regulator, requires organisations that are seeking public funding in Scotland to establish a separate organisation with an office and registration in Scotland. Sanctuary decided to build its Scottish organisation from scratch. It created Sanctuary Scotland Housing Association (SSHA) and recruited a new board with strong Scottish housing credentials.

Other English RSLs have generally expanded into Scotland through mergers with existing registered organisations. SSHA believes that it has now established a credible Scottish track record. It hopes that this means it is less likely to be treated as a predator.

In strictly legal terms the activity and governance is tightly constrained by the Sanctuary parent. However, the local credibility and commitment of the Scottish board make it more influential than its terms of reference suggest. Circumstances, and the attitudes of staff and board members in various parts of the organisation are more important than the formal legal structures within which they operate.

*Source: Research team, based on discussions with Sanctuary and Sanctuary Scotland Housing Association*
Currently, three-quarters of all RSLs are registered as charities.

**EXHIBIT 14**

Charities, companies and industrial and provident act societies

Currently, three-quarters of all RSLs are registered as charities.

**CASE STUDY 22**

Choosing the most appropriate legal status for a subsidiary

Certain types of legal status are better recognised in certain sectors and markets. Kelsey Care was initially set up as an I&P society, but found that the care world, while used to charities and companies, was less used to industrial and provident societies. Two Department of Health research grants were lost because the organisation was not a charity. Kelsey Care used the opportunity of floating off from its parent to change regulators and register with the Charity Commission.

Source: Research team, based on discussions with Kelsey Care
There were three important Housing Corporation circulars affecting the registration of groups in the 1990s: circulars on group structures in 1994 and 1997 and on Constitutional and Structural Partnerships in 1998 (Ref. 3 and 12). The registration of groups was also directly affected by developing policy on regulating diversity in the late 1990s. It was evident from a number of the case studies that these policy developments within the Housing Corporation, together with procedural changes (such as the establishment of lead regulators, and a lead regulation unit), resulted in a turbulent environment for those seeking to register group structures. Advice to RSLs, particularly over tax efficiency, was also changing at this time.

Because of this, few case study interviewees had found registration straightforward, and in some cases the process had been long drawn out, with RSL personnel in one case study feeling that ‘the goalposts appeared to have moved’. Some tension between applicants and the Corporation is inevitable; one group’s requirement for a ‘clear and consistent line on a particular detail’ will be ‘unnecessary prescription’ to another. Thus there are several concerns about the regulatory process identified in case study groups, and ways in which prospective groups could prepare better.

Regional offices have been replaced by regionally based teams of regulatory staff; these include finance, performance and inspection teams. Centrally-based stock transfer registration, and lead regulation teams for larger RSLs and groups, have also been established.

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**Registration of groups by the Housing Corporation**

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**BOX J**

**Improving the current registration process**

**What RSLs want from the Housing Corporation.**

Transparency, clarity and consistency in the registration process, including:

- a consistent policy line for all groups, that avoids unnecessary prescription;
- clear registration criteria, for example, on the paperwork that is required; and
- clarity on the roles of centrally based and regionally based regulatory teams/staff.

**Pain free registration: What the Corporation needs from prospective groups.**

- a clear business case from the start;
- better presented business cases;
- measurable targets;
- greater evidence on how groups setting up ‘empty shells’ will find partners to join their group; and
- the involvement of boards as well as chief executives at an earlier stage; plus a designated lead project officer who can be easily contacted.

**Both parties would benefit from:**

- better, and timely, communication; and
- a shared project plan with key stages and dates for mutual reference.

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1 There has been further change to the structure since this fieldwork was undertaken. Regional offices have been replaced by regionally based teams of regulatory staff; these include finance, performance and inspection teams. Centrally-based stock transfer registration, and lead regulation teams for larger RSLs and groups, have also been established.
Regulating groups – issues for the Housing Corporation

Case studies also picked up on emerging issues for the Corporation about the distinctions between groups and subsidiaries. In particular:

- **Which subsidiaries should be registered?** Group parents must register with the Housing Corporation, but there is greater flexibility over the registration of subsidiaries. For example, housing management services can be delivered by unregistered subsidiaries.

- **What is the appropriate unit of regulation – when is it the group as a whole, and when is it each individual RSL or subsidiary?**

- **Where groups have been established to meet the requirements of another regulator, to what extent is it the Corporation’s role to ensure that those requirements continue to be met?** For example, stock transfer size limits have led to group structures being set up; the DTLR requires the subsidiaries within these groups to be independent. Is it then the job of the Corporation to ensure that stock transfer group subsidiaries are genuinely independent? If so, is an RSL that cannot choose to leave a group because of the financial penalties truly ‘independent?’

Two more general points on the role of the Corporation relate to performance data and to the role of inspection. Since 1998, the Corporation has funded a review of information collected via the RSR; this research identified the importance of a separate approach to groups, to make it easier to see who is in which group and what group members do. Current proposals include collecting performance indicators that look specifically at group performance rather than the performance of individual RSLs. There could equally be a case for tailoring some inspections, especially where a group is very much acting as one entity. The recent consultation paper on inspection suggests that the Corporation will develop a ‘performance profile’ of each housing association before inspection that will include governance structure and arrangements between any group and subsidiary organisations (Ref. 13). This profile could perhaps become the trigger for decisions about whether to inspect individual associations or groups; for example, there would seem little point at present in separately timed inspections of the two or more subsidiary RSLs in a new stock transfer group such as New Charter. (The Corporation already intends to delay newly established stock transfer inspections until at least one year after transfer; in some cases it is likely to take rather more than one year before there are major differences between these similar subsidiaries).

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1 A draft of the proposed new RSR for groups was placed on Dataspring’s website (www.dataspring.org.uk) in August 2001.
**Using groups as an alternative to Housing Corporation supervision and direct regulation**

155. Group structures are shifting the boundaries between the RSL sector and the Housing Corporation over responsibility for regulatory compliance. By suggesting or encouraging weaker RSLs to join existing groups the Corporation can avoid having to make statutory appointments to the boards of RSLs in supervision; the parent board of the group that they join is in effect taking on a supervisory role. One such informal arrangement was evident at a case study group. In effect, groups are being used to increase self-regulation within the sector, freeing the Corporation to have a less direct and more strategic role.

156. This self-regulation role may be most significant in relation to non-social housing subsidiary activities. These activities are increasing in significance and scale in some groups, to a point at which they can have a material impact on the governance and viability of a group. These activities often do not fall within the regulatory remit of the Housing Corporation; some subsidiaries (for example, model rule exempt charities) are not actively monitored by any other regulator.

157. Group structures mean that the Corporation can expect the parent to use internal risk management to fill any regulatory ‘gap’. Case studies showed some evidence of the Corporation discouraging diversification where they had concerns about the robustness of a group’s internal risk management practices.

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**CRITICAL SUCCESS FACTORS RELATING TO REGULATION**

RSLs should be clear about regulatory requirements and alternative legal structures for subsidiaries as early as possible.

Be clear on whether or not a subsidiary is still a requirement.
- If it is, consider how to make the best of the regulatory requirement.

Consider which legal structures will suit your purposes best:
- Do these allow for tax efficiency?
- Do customers and funders recognise and understand these regulators?
- Will regulators allow the kind of representation wanted on the parent board?

*CONTD*
Detailed discussions with the Housing Corporation will go faster and more smoothly if:

- a clear business case has been prepared;
- it includes measurable targets;
- groups set up as a ‘shell’ structure for future unidentified partners can show the Corporation where these partners are – or how they will be found;
- there has been prior internal discussion and agreement on the kind of intra-group agreements wanted – and proposals include enough parental control to satisfy core regulatory requirements;
- there is an agreed project plan;
- there is a nominated project officer in addition to the Chief Executive; and
- board members as well as RSL staff are up to date on key decisions.
Conclusion

Existing evidence does not show that groups automatically deliver a different quality of service to tenants and other stakeholders when compared to non-grouped RSLs. Senior RSL staff and board members need to be clear and realistic about their aims, and about how these will benefit tenants. They can then assess whether an alternative structure would help them to achieve their aims.
158. Group structures are well established, especially for larger RSLs. While there are a number of RSLs considering setting up a group or amending an existing structure, there is little evidence of groups reverting to single unitary organisations. However existing groups are not static; the number of subsidiaries within groups and their relative turnover can change from year to year, especially when changes to tax rules and regulatory requirements mean that a subsidiary is no longer necessary or advantageous.

Reducing tax liability and allowing a wider range of activities in addition to the provision and management of social housing

159. The current taxation system means that suitably organised groups can improve tax efficiency for most members. The effective use of permitted tax relief for charities, and the creation of VAT groups, may both reduce tax liabilities. Groups offer RSLs, especially larger RSLs, opportunities for growth and a structure for organising diverse activities. Traditionally, RSLs wishing to widen their role beyond social housing have had to create subsidiaries because of the limitations imposed by regulators. The recent widening of the ‘permitted purposes’ of a registered RSL means that subsidiary companies are no longer always necessary to achieve the same end. But they are still the only way in which certain types of growth and diversification can occur – for example, expansion into Scotland for an RSL based in England.

Managing diversity

160. Where an RSL carries out a range of diverse activities, or has stock that is geographically spread out, a group structure provides a legal, financial and management framework for organising and managing those activities and geographical areas. Some RSLs like to focus both board and managerial expertise through a system of subsidiary companies that concentrate on specific activities or geographical patches. Separate subsidiary companies also offer a structure for ring fencing and managing risk. However, there are non-grouped RSLs and groups carrying out diverse activities that prefer to organise themselves in divisions or other ways, and there is no evidence that they are less able to manage diversity or control risk.
Specific local circumstances: stock transfer groups

161. Group structures are an option for working within the current government framework for stock transfers if a local authority wishes to transfer more than 12,000 units at one time. It makes possible a single ballot and one loan. This may give better interest rates linked to the size of the loan, and may make total transfer more viable by combining stock in better and poorer condition in a single loan deal. The group solution is likely to remain popular in these circumstances – unless the DTLR amend the current ceiling on numbers, or insist on greater independence for group subsidiaries.

Specific local circumstances: retaining some independence for new joiners

162. Many RSL groups offer subsidiary status to small or partial local authority stock transfers as an alternative to merger. This approach seems to be popular with the authority planning the transfer and with tenants of the housing concerned. Transfer stock is geographically concentrated, with an established group of staff with local conditions of service and working procedures and established ways of consulting with tenants. Retaining a separate subsidiary can make management sense for an acquiring parent RSL. Equally, where a small RSL does not wish to lose its identity but is under pressure to change (either because of existing financial or managerial weaknesses, or because the board and management can foresee problems in the future) joining a group can seem a better solution than a merger. It allows some independence to be retained, and may genuinely allow a smaller RSL to regroup and perhaps become independent again in the future.

Alternatives to groups

163. Groups are not the only solution to the problems that have led to their development. Some RSLs have found it better to set up separate divisions or to integrate new activities within existing departments. This strategy may help in ‘joining up’ services such as housing management, community development and neighbourhood management. Other RSLs have found that some activities have become so substantial that it is better to float them off to an independent organisation that can focus its full attention on them. This has often been the case with social care activities which can be very staff intensive.

Alternative group structures
165. ‘Umbrella’ group structures, with one non-asset holding parent and potentially equal subsidiaries, have become popular recently. This structure has sometimes been chosen by groups where there is, or will be, more than one major partner. One example is where a subsidiary has grown to be a significant contributor to overall group finances. Putting this subsidiary on a more equal footing with the original parent, by making both subsidiaries of a new, strategic ‘umbrella’ parent, can smooth internal group relationships and strategic planning. A second example is where two reasonably large RSLs decide to join together. A new ‘umbrella parent’ group structure, rather than a direct merger, may make it easier to accommodate existing staff and board members, and can allow for the development of a new shared identity without one RSL necessarily feeling ‘taken over’.

While the ‘umbrella’ structure seems to fit some specific circumstances, it can raise particular concerns about accountability. Group structures where the parent is not the principal landlord are often less easy for tenants and other stakeholders to understand and influence. The parent board can become less directly accountable to tenants. Non-housing activities may become more influential. Current strategic parent boards do not always have tenant representation. Managers considering new or amended group structures need to think about how they can ensure that their new structure enhances tenant involvement and management accountability.

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167. There are financial and organisational costs as well as potential savings from setting up or amending group structures. The balance will vary in individual cases, and managers should consider both before making any decisions that involve major change. Where the creation of a group coincides with significant stock growth it can deliver economies of scale, but this is not automatic and may not outweigh the costs. Groups cost money to set up and run. Setting up a small specialist subsidiary is relatively straightforward, but changing a group parent and altering the arrangements between subsidiaries and a new parent will be more complex and expensive. Start up costs include legal fees and the cost of consulting with and informing tenants and other stakeholders. There are often transitional costs as staff move posts, conditions of service are standardised and old and new structures and offices overlap, or are deliberately run in parallel for a period. There are ongoing costs to groups compared to single organisations, for example, from servicing additional boards and producing separate and consolidated accounts for group members. Setting up or amending a group structure also takes a considerable amount of senior management and board member time and energy; this will mean less attention to other issues.
Clarity on desired outcomes, combined with effective management, is more important than structures.

168. Performance information shows no clear link between membership of a group and improvements in RSL management costs or performance. Some case study groups planned for, and could show, savings from stock growth linked to setting up or restructuring a group; others hoped for savings in the future but could not yet demonstrate them. Small RSLs joining existing groups may gain most where a group gives them access to better borrowing rates or reduced-cost specialist services from larger partners. There is a trade off for individual RSLs and any other subsidiaries between taking advantage of the savings that a group may offer and retaining their independence and their ability to leave a group. Pooled borrowing in particular can effectively lock subsidiaries into a group, because the costs involved in changes to a joint loan agreement may be prohibitive.

169. It does not always benefit all group members to have to use centrally provided group support services and follow a group parent’s policies, especially where subsidiaries have different business needs. Some subsidiaries have been floated off from groups where the parent organisation, or both parent and subsidiary boards and managers, decided that such independence would provide greater benefit to the parent and perhaps also the subsidiary.

Regulating groups

170. Current performance and regulatory information collected by the Housing Corporation is based on individual RSLs, which does not make it easy to compare performance across or between groups. The Corporation has introduced a new annual return for groups that will make it easier to identify group members and to record their performance. The Corporation may want to further review, in consultation with RSLs, the collection and presentation of group level performance information at the end of the first year of operation. The Corporation will also need to consider how best to develop the new regulation and inspection regime to take account of group structures. Different approaches may be sensible for those groups organised as single organisations compared with those that are a loose collection of very different organisations.

Summary

171. Existing evidence does not show that groups deliver a different quality of services to tenants and other stakeholders when compared to RSLs that are not group members. Neither is there evidence of one ideal model for structuring a group. This is not surprising, given that evidence from both private and public sector restructuring and mergers generally shows that structural reorganisation does not by itself lead to the delivery of better services. (Refs. 2, 14).

172. Senior RSL staff and board members need to be clear and realistic about their aims, and about how these aims will benefit tenants. They can then assess whether an alternative structure would help them to achieve those aims. Clarity on desired outcomes, combined with effective management, is more important than structures.
Appendix 1

Advisory Group Members

Tom Dacey  Chief Executive, Southern Housing Group
James Tickell  Assistant Chief Executive, National Housing Federation
Andrew Cowan  Partner, Devonshires
Peter Flamank  Partner, PricewaterhouseCoopers
Mark Exworthy  London School of Economics
Wendy Temple  Chief Executive, Heart of England Group
Colin Spalding
Mike Palmer  Corporate Director, Revenue and Housing Services, Ipswich Borough Council
Tony Cox  Regulation Division, The Housing Corporation
Robert Fox  DTLR

Audit Commission
Greg Birdseye
Roger Jarman
Scott Dickinson
Nic Rattle

Consultants
John Reading  CVS Consultants
David Mullins  Centre for Urban and Regional Studies, University of Birmingham (CURS).
Appendix 2

This appendix describes the organisations that made up the groups visited during the study. Groups are listed in alphabetical order. The appendix shows the wide range of organisations that can be found in groups and the diversity that exists between groups. It also shows how dynamic groups can be; changes in a seventeen-month period are listed for each group, and include complete group restructures, closure of subsidiaries, new subsidiaries being set up and name changes.

Case study groups

Amicus Group

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### Kelsey

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**31 March 2000**

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<td>Cashbridge Ltd</td>
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**Changes as at August 2001**

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<td>Peabody Developments Ltd</td>
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### Portsmouth Housing Group

#### 31 March 2000

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<th>Remit</th>
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<tr>
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<tr>
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#### Changes as at August 2001

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### Presentation

#### 31 March 2000

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### Prime Focus Group

#### 31 March 2000

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<tbody>
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<td>Focus Housing Association Limited</td>
<td>Housing</td>
<td>11,840</td>
<td>Focus Focus Regeneration Group Ltd</td>
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<tr>
<td>Parent in 2001</td>
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<td>Focus Housing Association Limited</td>
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<td>Black Star</td>
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<td>Subsidiary</td>
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<td>921</td>
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## APPENDIX 2

### Status RSL? Name Remit Stock Name Remit Stock

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<tr>
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<th>Stock</th>
<th>Name</th>
<th>Remit</th>
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<tr>
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<td>Riverside Apartments Management Ltd</td>
<td>Manages leasehold – very small</td>
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<td></td>
<td></td>
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<tr>
<td>No</td>
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<td></td>
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### Sanctuary

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<td>Manages leasehold – very small</td>
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<tr>
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## Yorkshire Community Housing Ltd

### 31 March 2000

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## Appendix 3

**Historical influences on the development of group structures since 1984**

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Consequences for group structures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>Introduction of shared ownership and leasehold schemes for the elderly permitted under the Housing and Building Control Act (Ref. 4).</td>
<td>Because of uncertainty as to whether the development of shared ownership homes was not classed as a charitable activity, housing associations wanting to develop low cost home ownership formed group structures with separate, non-charitable home ownership subsidiaries.</td>
</tr>
<tr>
<td>1985</td>
<td>Housing Act 1985 allowed for the establishment of Large Scale Voluntary Transfers (LSVTs) (Ref. 15).</td>
<td>Potential for expansion. The Act enabled the transfer of local authority stock to a housing association, either set up specifically or already existing.</td>
</tr>
<tr>
<td>1988</td>
<td>Legal framework put in place for Tenants’ Choice to encourage the transfer of stock from local authorities. First LSVT, Chiltern District Council stock transferred to Chiltern Hundreds Housing Association.</td>
<td></td>
</tr>
<tr>
<td>1992</td>
<td>Legal registration of the Anglia Housing Group – first group structure with non-asset holding parent.</td>
<td>One of the three RSLs now in the group, Wherry HA, originally set up as a new RSL following whole stock transfer (Broadland District Council, transferred 1990).</td>
</tr>
<tr>
<td>1994</td>
<td>Housing Corporation circular F2 29/94 on group structures (Ref. 3).</td>
<td>Enabled RSLs to establish subsidiaries to undertake activities that the parent was unable to support.</td>
</tr>
<tr>
<td>1995</td>
<td>First large-scale voluntary transfer (Maldon District Council) to an existing housing association group structure (Plume HA to Moat Housing Group).</td>
<td>The first transfer to an existing housing association group began a trend that has accelerated in recent years.</td>
</tr>
<tr>
<td>1995</td>
<td>Government announces phased withdrawal of tax relief for non-charitable housing associations in England and Wales previously provided under Section 54 of the Housing Act 1988 (Ref. 16).</td>
<td></td>
</tr>
<tr>
<td>1996</td>
<td>Legal registration of Flagship Housing Group with two RSLs originally set up to take stock transfer as members Peddars Way (Breckland Council) and Suffolk Heritage (Suffolk Coastal District Council).</td>
<td></td>
</tr>
<tr>
<td>1997</td>
<td>Housing Corporation circular R4 06/97 on group structures (Ref. 3).</td>
<td>This circular increased the Housing Corporation’s regulatory powers following the Housing Act 1996, requiring groups to make the relationship between group members explicit and transparent and each group member to be individually financially viable (Ref. 1).</td>
</tr>
<tr>
<td>1998</td>
<td>Housing Corporation, in circular R3 34/98, requires a business case for new groups to be made before registration (Ref. 12).</td>
<td></td>
</tr>
<tr>
<td>1999</td>
<td>DETR statutory instrument SI 1206/1999 (Ref. 8).</td>
<td>Extends the ‘permissible purposes’ of RSLs to providing land, amenities or services to non-residents as well as tenants, and to engage in regeneration activities for their benefit.</td>
</tr>
</tbody>
</table>

**CONTD**
<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Consequences for group structures</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>End of all tax relief previously received under Section 54 of the Housing Act 1988.</td>
<td>As a result of this change housing associations set up group structures in or before 2000 to enable efficient tax planning.</td>
</tr>
<tr>
<td></td>
<td>Housing Corporation publishes ‘Regulating a Diverse Sector’ (Ref. 5). It includes a wide definition of social housing. This allows many activities previously carried out by subsidiaries to be carried out by RSLs.</td>
<td>Some group structures that were set up to allow diversity are no longer necessary.</td>
</tr>
<tr>
<td></td>
<td>Proposes that RSLs should notify the Corporation if non-social housing activities exceed 5 per cent of turnover and every 5% increase thereafter; a ‘control review’ is triggered if the percentage that is not social housing becomes significant (probably when it reaches a third) or growth is especially fast.</td>
<td>The Corporation signalled that it would be concerned if a group diversified significantly from the primary role of social housing provider into other activities; may encourage RSLs to reorganise and separate out ‘other activities’ into a separate group member to aid the percentage distinctions.</td>
</tr>
<tr>
<td></td>
<td>First transfer of local authority stock to a specially created group with a non-asset holding parent and two stock holding subsidiaries (Tameside Metropolitan Borough Council to New Charter Housing Group).</td>
<td>May encourage groups to ‘float off’ large subsidiaries that are not social housing.</td>
</tr>
<tr>
<td></td>
<td>As a result of this change housing associations set up group structures in or before 2000 to enable efficient tax planning.</td>
<td>Guidance limits the maximum size of transfer to a single organisation to 12,000 homes. Some authorities with significantly more stock were concerned about having to split stock for balloting and financial reasons (Ref. 17). The group structure gets round this by transferring stock to a number of subsidiaries, all part of a group. Now popular for large urban transfer plans – this may result in major changes to the make up of the RSL sector.</td>
</tr>
<tr>
<td>2001</td>
<td>Increase in existing RSLs being selected as the preferred future landlord for whole stock transfer (6 to date).</td>
<td>Stock transfer becomes an increasingly important route to growth for existing RSLs; offering to take the stock in as a group member is often an important reason for them being chosen as the new owner.</td>
</tr>
</tbody>
</table>
References


   *Constitutional and Structural Partnerships. Who benefits?* University of Birmingham, Housing Research at CURS no. 8, 2000. This has a fuller account of the research on mergers in the profit distributing and non-profit sectors.


4. *Housing and Building Control Act*, 1984, HMSO.


15. *Housing Act* 1985, HMSO.

16. *Housing Act* 1988, HMSO.

17. DTLR, *Housing Transfer Programme; Guidance for Applicants*, 2001/02 (the guidance has been updated several times since 1988, most recently in 2001/2).
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Group structures are well established among RSLs, especially for larger landlords with 250 or more homes. Groups are becoming increasingly popular, and the way groups organise themselves is changing.

*Group Dynamics* looks at why RSLs set up groups and whether groups deliver the benefits expected.

Existing evidence does not show that groups deliver a different quality of services to tenants and other stakeholders when compared to RSLs that are not group members. Neither is there evidence of one ideal model for structuring a group.

Senior RSL staff and board members need to be clear and realistic about their aims, and about how these aims will benefit tenants. They can then assess whether an alternative structure would help them to achieve those aims.

The report highlights the issues that they should consider when looking at setting up or amending a group. It suggests that the Housing Corporation has an important new role in collecting and disseminating comparative information about groups and in developing its new inspection regime in a way that matches the diversity of RSL groups.