Diversification of housing associations’ work in the west midlands

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Introduction

The period 2010-15 has been characterised by significant reductions in public expenditure, an increase in social problems related to the economic climate, and a continuation of established demographic trends. As they anticipate and experience the impact of these changes, housing associations in the west midlands have started to diversify their activities. Sometimes the new activities are different from their traditional areas of business, but a change in delivery model or funding arrangements for their usual activities can also be seen as diversification. Diversification includes involvement in activities that are:

- intended to yield a profit that can be invested in the main social housing business e.g. market rental, sale of property maintenance services
- often lower margin and are intended to protect tenants and communities e.g. tenancy support or training schemes

This report captures the areas of work associations are diversifying into to protect tenants and communities, identifies where new approaches to existing community-focused work are being pursued, and explores where commercial diversification also supports social objectives. It identifies the challenges and risks associated with this diversification, and presents good practice to help associations manage diversification as effectively as possible.

Areas of involvement

Involvement in activities that go beyond the main business of providing affordable rented housing is not new to housing associations. The most recent social and financial changes *have* driven a new round of diversification: more associations are now involved in a wider range of activities, and they are using a wider range of funding and delivery models for activities outside of affordable rented housing provision.

<u>Types of activity and reasons for involvement</u>

The different types of community-protection activities and reasons for involvement with them are presented in the table below. Many of these are activities that some housing associations have been involved with before; indeed some have an established track record of providing these services. The key changes are that:

- More associations are undertaking these activities than in the past, so the types of activities are new to some of the associations taking them on
- There has been a conscious decision to expand existing areas of involvement
- There has been a shift in focus within some established areas e.g. employment & skills
- Provision of services for acute care and public health is starting to grow
- Partners that provide services to associations' tenants and localities are joining housing association groups or developing deeper partnerships (to grow services and enable access to new arenas)
- Funding and delivery models are different than in the past.

Area of work	Examples	Reason for involvement
Low level support	Floating support for tenants who were previously homeless, armed services housing & support	• Need to sustain tenancies because there are now fewer options for tenants who do not succeed • Desire to reduce costs from voids and repairs arising from failed tenancies
Support for high needs groups	Recent offenders, domestic violence, troubled families, drug rehabilitation	• Reduction in services funded by Supporting People or provided by grant-aided charities • Housing management costs increase when these groups are not supported • Housing managers do not have the skills to deal with these groups when they are in the general needs population
Community activities	Youth schemes, social activities for older people, community café, nurseries, breakfast/lunch clubs	• Reduction in services provided by local authorities and grant-aided charities • Neighbourhood management costs increase when these schemes are not available
Care services	Care homes, domiciliary care, extra care, hospital admittance prevention, hospital discharge support	• Increasing numbers of existing tenants whose needs cannot be met within general needs stock • Opportunity to generate revenue from commercially operated services due to untapped market demand • Increasing appetite for health-housing partnerships
Public health services	Making Every Contact Count, healthy living advice, exercise classes	• Remove barriers to employment • Reduce need for aids and adaptations • Increase wellbeing of an area and reduce exclusion from wider society
Inclusion services	Debt advice, credit unions, IT training, energy advice, foodbanks	• Tenants have better quality of life • Increases capacity of existing services so tenants can be seen more quickly • Local services struggling to survive due to loss of funding or inadequate management skills
Employment	Training, jobs workshops, apprenticeships, social loans (for small businesses)	• Improve tenants' life chances • Reduce the risk of lost income due to welfare reforms
Affordable products	Rented furniture, hire purchase	• Tenants have better quality of life due to comfortable home and manageable finances • Reduces likelihood of failed tenancies caused by financial problems or lack of household equipment

Associations often do not have a specific strategy for exactly what activities they intend to get involved with, but they are usually very clear on areas of interest that they intend to pursue, and the activities they eventually undertake do fit with these identified areas of interest. Areas currently of strategic interest to west midlands associations that are leading to new or expanded activities include:

- Mental health
- Older people's health – especially preventing hospital admissions and enabling hospital discharge
- Employment & skills
- Public health and wellbeing
- Furniture provision / recycling
- Prevention of offending behaviour and rehabilitation of offenders.

These areas have been identified because associations can see the impact they have on the communities they currently work in. The table above shows that the areas and reasons for involvement are quite varied. Reasons can be broadly categorised as:

- Contribute to reduction in costs for running the core housing service
- Contribute to improvement in tenants' and other people's wellbeing and life chances
- Contribute to stability of local neighbourhoods (the business benefit is that it helps to control management costs and maintain property values, but more altruistic reasons tend to drive associations here)
- Opportunity to secure commercial revenue while also meeting social need.

Alongside specific projects, general needs associations have observed that housing officers are being drawn into trying to address mental health, substance misuse and social care needs because statutory services have shrunk. Where officers may have signposted or referred in the past, they are now increasingly providing low level support with a view to sustaining tenancies.

There is a spectrum of activities, from those where there would be a problem for the association if they did not happen, through those that add value or business benefit to the association, to those that are simply beneficial for individuals or communities.

Associations only occasionally have formal research into factors affecting their communities. It is more common for awareness of these factors to come from front line staff experience and participation in local liaison meetings. It is worth observing that areas of interest to associations are aligned with agendas currently prioritised by local and national government. There is no suggestion that associations simply 'follow the money' when they make decisions about diversification; all associations refer back to circumstances in communities they already work in when explaining their priorities. However they may find themselves delivering services that are not exactly what they would have chosen to do if their activities were not directed by commissioners or funders.

The genesis of diversified activities

There are three main ways in which these diversified services come to be provided. The association:

- Identifies a need and concludes that it is well suited to provide a new service itself
- Deepens an existing relationship / partnership by taking a service it already works with or benefits from into its group

- Steps in to help a struggling service provider or to fill a gap after an established service has been withdrawn.

In addition, diversified ways of working come about where associations want to secure particular services for the benefit of their tenants or communities where they operate.

1) Direct provision

The first way seems to be the most common route to provision. Where a type or area of activity is particularly new to associations e.g. health services or support for troubled families, they tend to run pilot programmes which give the space to test input and impact before making a wider or deeper commitment. Pilots have also been used before making changes to the core housing business, for example where associations want to explore potential to avoid changing the groups they let to in the face of welfare reform. Some associations expressed caution about assuming they are best placed to meet a need when in fact they may be able to support another organisation's existing service to extend its reach or activities.

Some associations have been approached by public bodies with a view to taking over provision of statutory services, and most have decided that this is a red line they will not cross.

2) Deepening relationships / partnerships

Deepening partnerships is one step removed from direct provision of new services, and some associations prefer this as a way to proceed because they acquire the right skills and reputation rather than having to build them.

In terms of for-profit diversification that also forms part of the community protection agenda, associations can support small local suppliers by offering back office services and/or bringing them into the group as an acquisition or delivery partner. These companies are often attractive because of shared values and local origin, and they can offer employment and training to tenants (thus delivering in the employment category in the table above). The association can offer the companies a guaranteed pipeline of work and access to professional back office services (legal and financial) that support business development.

Severnside purchased an electrical contractor that they had worked with for over ten years. The business continues to carry out electrical repairs on Severnside properties, but also sells electrical services to both domestic and commercial clients in Shropshire and more widely, providing a financial return to the Association. In line with Severnside's commitment to apprenticeships, the contractor takes on two apprentices each year.

Associations have been approached by local charities that need to increase their capacity so they can meet increasing local need and require a partner to fulfil their growth objectives. Sometimes they already work in partnership with these charities, and other times they have a cordial relationship due to having shared clients and/or working in the same locality. Similarly associations are pursuing partnerships to expand their own opportunities – they are not passive recipients of requests for joint working. Partners are particularly sought to bring expertise, particularly in care, support and advice services where they have appropriate skills and technical knowledge. Associations also sometimes need partners who have a good reach and contacts with the most socially excluded people, especially where they are investing in a whole area not just their own tenants.

Where new businesses have joined association groups, associations sometimes move some of their existing functions into them, for example where they complement and strengthen the partners' core services or where skills to manage particular functions are stronger in the partner organisation.

Changes in commissioning and funding for support services have driven some of these searches for new partnerships. Examples are where support providers need managed accommodation, landlords need the right skills to provide add-on services to meet their tenants wider needs, smaller bodies need skills and capacity for tendering, or a particular scale of operations or organisational type is required to access particular funding pots. These strategic partnerships enable housing associations to enter new arenas (by drawing on their partner's existing skills) or geographical areas (by starting initiatives where there partner already has a presence).

Changing pressures on existing client groups can also drive associations to explore new partnerships or delivery models. For example where people's ability to access stable accommodation is reducing in the face of welfare reform and the casualization of the labour market, or where long-standing minority ethnic tenants reach old age and require culturally appropriate services to meet their emerging health and social needs.

> St Basil's Live and Work scheme is delivered in partnership with the local NHS and provides low cost accommodation for young apprentices who work in the hospital. The young people have all been homeless or at risk of homelessness. The association took on some disused nurses' accommodation and renovated it at cost using grants and a contractor's social value provision. The accommodation is let to young people at unusually low rents that mean they do not require housing benefit despite being on a low income for the duration of their apprenticeship.

3) Support for existing services and filling gaps left by service withdrawal

A number of associations have been approached by local charities that are in trouble. Some have been taken in-house, often with all trustees resigning but the service continuing under new leadership. It is worth noting that independence of charities is valued by associations and this influences their decision making about whether and how to step in with existing services. Some associations have a pot that can grant fund charities which need only small amounts to keep running independently. Some have supported struggling charities by commissioning e.g. bringing small services into the association's supply chain to give a guaranteed stream of work. Others offer pro bono back office services to help offset the lost funding.

Some associations have started to deliver activities that were previously provided by the council – often these can be absorbed into existing housing management functions e.g. youth groups and clearing fly tipping.

> Wrekin Housing Trust was asked by a local authority to take over a farm that provided employment for adults with learning disabilities. The Trust developed a social enterprise model that would put the farm on a commercial footing, whilst simultaneously gaining access to land for development of new affordable homes.

Associations do have an eye to their wider relationship with local authorities when they consider taking on activities that help the council. Being a willing partner in provision of community services can help associations to become a preferred partner for allocations of local authority owned land, and thus benefit their development programmes.

4) Diversification to secure services

As well as diversifying their own services, associations have diversified the ways in which they work in order to secure services that would benefit their tenants or local communities. They sometimes act as funder, commissioner or facilities provider to enable other charitable or social enterprise organisations to provide services from which the association or its tenants will benefit. For example:

- Leasing stock to specialist providers
- Grant funding from a 'community chest'
- Block purchasing services e.g. money advice – this guarantees the association access to services whilst also giving certainty or additional scale to the provider
- Commissioning services e.g. fuel poverty training/advice – this enables the association to help shape and develop a service over the medium term whilst giving a reliable income stream to the provider
- Providing back office services to small businesses – this can build capacity or ensure viability of organisations that were already providing services to the association
- Building capacity in local charities by encouraging staff with particular expertise to join or mentor boards.

These simple relationships can later form the foundations of more mature partnerships used for diversified service provision.

Associations have a particular interest in the potential contribution of shared services and for-profit diversification to their community protection agendas. Associations also recognise that where they share services with other associations they can make savings to re-invest in the kind of activities that protect tenants and communities. Neighbourhood management models first seen in the 1990s are starting to make a resurgence as councils struggle to manage local services and associations seek efficiencies in housing management.

Funding sources

A range of funding sources is used in provision of community benefit services. Different sources are used for different activities, and each has issues that merit consideration before committing to their use. They include:

Source	Type of activity funded	Issues to consider
Internal revenue	Floating support- filling gap left by Supporting People	HCA expectations around risk to social housing assets Opportunity cost
PCC/NHS/Public Health England	Falls response service	New relationships –don't always speak the same language or understand delivery structures or decision making processes
National Probation Service / CRCs / LA	Accommodation-based support for offenders	Concerns that Community Rehabilitation Companies may behave as Work

community safety funds		Programme contractors did. Also need to manage payment by results funding
Personal budgets	On-site support in residential homes	Liabilities and risk to service continuity when residents may not agree to purchase the services the landlord has put in place
Social impact bonds	Offenders services	Insecure income stream – performance may be affected by factors beyond the association's control
Equity investment	Affordable hire purchase furniture scheme	Opportunity cost Need confidence in the receiving organisation's business model and delivery capacity
Supporting People	Accommodation based support	Need to manage ongoing reductions in funding (capacity to provide quality/safe service) and new expectations around delivery e.g. payment by results
Intensive housing management (HB)	Support in fixed schemes for most vulnerable	Risk of withdrawal of funding due to ongoing welfare reforms
Grants	Employment & skills services	Time taken to secure and administer, especially if multiple grants in play and service continuity depends on them

A number of services are being run with multiple funding sources. Sometimes the association direct funds the part of the service that reaches its own tenants and secures grant funding so the service can extend to the wider community. Similarly, there are also examples of associations adding direct funding to a commissioned service so that the staff skills can be used part time on activities like provision of employment or energy advice specifically for the associations tenants. This model works well where the association could not pay for a full time person and could not access the skills for the size of post they could fund.

Loss of Supporting People funding has pushed associations that specialise in support back to charitable funding (a source they used 15 years ago before the Supporting People programme). Associations that require a lot of funding for support activities are having to build in new capacity to enable them to access it e.g. to drive fundraising and meet funders' reporting requirements.

Similarly, reductions in Supporting People funding and increase in Department of Health and Ministry of Justice interest in particular client groups are pushing support providers towards different sources of public funding.

Issues arising

Associations are reflecting on a number of tricky questions relating to diversification in activities, funding and delivery models while also trying to respond as quickly as possible to pressing local needs and to opportunities that arise.

Organisational remit

It is striking, though not necessarily surprising, that associations have very different views about what activities they should get involved with. All link the activities they undertake back to their core purpose, but their definitions of core purpose are quite wide ranging. Organisational type and scale has a significant bearing on this.

Illustrative examples:

- LSVT associations tend to feel their commitment is to the wellbeing of an area rather than just to their current tenants, especially where levels of social and economic deprivation are high
- Small specialist associations tend to see themselves as catering for the range of needs experienced by a particular group of people e.g. an ethnic group, an age group, people with high support needs, rather than exclusively addressing housing needs. Their rented accommodation is usually seen as the fixed base from which wider services can be delivered
- Some larger and more geographically spread associations see housing provision as their primary area of business so where they can see tenants have additional needs they prefer to fund community services through a partner that has local presence and appropriate skills
- Conversely some associations feel that although housing provision *is* their primary business, the need for social housing is often a symptom of some other need or problem, so they tackle other problems with a view to reducing various pressures on their own housing services.

There is no particular problem with this wide range of definitions. What matters is that there is a link between organisational mission, corporate plan, and activities undertaken. This thread leads to more consistent decision making about where time and money can be invested, which in turn helps to maximise the value of activities, and makes it possible to monitor the value of decisions and explain them to stakeholders.

Smaller associations tended to comment on the importance of their boards in helping to maintain focus on organisational remit when considering which diverse opportunities to pursue.

Strategy

Boards and senior managers are wrangling with the perennial question of what can be considered core activity. We may have passed the days when many associations and commentators considered that anything beyond general needs rented housing was non-core. For example care and support is often considered to be core business because it is about enabling particular groups to access accommodation that meets their needs, although it requires different funding, processes and skills from traditional social housing. For associations that were originally set up to cater for particular client groups, expanding beyond housing to address the wider needs of these groups is often considered to be continuity rather than diversification.

It is probably impractical to seek a sector-wide definition of core/non-core. What matters is that associations have clarity on parameters that guide their activities and spending decisions.

- Some businesses are very clear that they cannot afford to spend beyond provision of housing services. Activities beyond traditional management, maintenance and development *are* pursued but funding does not come from the housing business.
- Some are clear that they will not create a portfolio of activities beyond provision of housing. They will fund initiatives that benefit particular localities but these services are time limited and not mainstreamed either within or outside the association.
- Most are fairly flexible. They have a broad remit to benefit communities and will make pragmatic decisions about activities to undertake, funding sources and use of staff time.

Despite these guides to aid decision making, associations still have concerns that boards and staff teams may not truly understand what they are taking on when diversifying activities, and that this creates a risk of damage to their businesses. There is a belief that it can be difficult to prepare a robust business case for taking on these activities because true cost, impact and return are hard to quantify in advance. Certainly this would suggest that the appropriate analysis and information is not always available to build the appropriate understanding.

Funding and regulation can be a brake on ambition for diversification. Funders' requirements on margins and gearing limit the amount of low-margin activity that can be taken on and the amount of surpluses that can be spent on community work. Some funders e.g. bond investors are looking for organisational simplicity and are averse to peripheral non-core activities. Similarly the HCA is perceived to be risk averse and associations often feel this is reflected in their dealings with the regulator. Associations, particularly larger ones, need to decide how they will balance their need for strong relationships with funders and the HCA with their desire to support local communities.

Associations sometimes have to make fairly ad hoc decisions about activities to get involved with, and it is easy to link a broad range of activities back to core purpose in order to justify involvement in them. Most associations are comfortable with this flexibility, and it does make them attractive as a potential partner. There is a challenge around pursuing this approach alongside moves to be more 'businesslike' – demonstrating value and return on activities. Many can retrospectively demonstrate the value and impact of what they do, for example by using HACT or ESF evaluation tools, although others express their desire for access to SROI tools. The logical step up from being able to evaluate once a service is running is to make comparative assessments of opportunities and the return delivered. Most associations are not yet doing this and many do not feel they want to, because it feels impassive and they prefer personal engagement with people and places.

Housing associations have found it relatively easy to set red lines relating to activities they will not undertake – delivery of statutory public services is a common one. However, associations are concerned that the more community support-type activity they take on, the more public bodies will allow them to. Associations do not want to become a de facto local authority and they worry that their incremental decision making could make that more likely. Despite this concern, they have found it difficult to set boundaries for how much activity will be undertaken. They also worry that by taking a philanthropic approach to enabling community support activities, but with limited funds, they will create a postcode lottery in service provision. Associations are not always comfortable with the idea of targeting the most deprived areas to maximise impact, on the basis that their tenants living in other areas are likely to have similar issues but would be unable to benefit from their landlords' assistance.

Organisational type & structure

Organisational type seems to affect expectations about activities that should be pursued, and associations need to determine how to respond to these expectations. Diversification can require new structures, and associations need to consider what structures are best for them and what knock-on consequences will arise.

LSVT associations often find that both the local authority and their tenants have firm expectations about the role they are expected to play. These expectations are stronger than those placed on traditional associations and do influence behaviours. LSVTs seem more likely to get involved with issues that are the root cause rather than the immediate cause of housing problems e.g. sponsoring university places to tackle future unemployment.

Where associations acquire a business, establish a joint venture, or bring an enterprise into their group they need to look to their governance arrangements to ensure that the relevant boards have the appropriate experience and skills (see below) and that the new partners have sufficient voice within the structure. Some associations still offer companies joining their group a place on the board, though in general this is not taken up and strategic fit and oversight are maintained in other ways. Alternatively, interlocking delivery of day to day services across different businesses can build both relationships and added value, as well as avoiding creation of a cumbersome board if there are multiple partners. Running multiple subsidiaries within a housing group can be expensive, but there are legal barriers to merging subsidiaries in order to reduce costs.

Where associations are seeking charitable funding to replace Supporting People funds, structures are changing to accommodate this. Emphasis on trading activity within these associations has been stepped up e.g. using community interest companies to complement charitable funding, and independent charities within groups are being established or revived to raise and receive funds.

Where trading activity has been increased and charities and CICs are joining groups, solid legal advice is required to navigate these changes effectively. These changes also lead to associated changes in required board composition (skills/knowledge of fundraising and social enterprise) so board development programmes are often required alongside changes in business structure and activity.

While associations may previously have bid alone for funding to support their community benefit activities, changes in commissioning (particularly for employment and health projects) may drive an increase in involvement in consortia, as associations seek to reach sufficient delivery scale and capacity. Existing consortia have already established the need for flexibility in sharing costs to ensure the consortium can survive if one member struggles financially.

Funding sources

Deciding how much internal funding to allocate and what sources for external funding to pursue needs careful consideration, and associations need to understand the consequences of decisions taken.

Where an association decides to fund a service from its existing revenue, a key concern is whether it is fair for tenants to be meeting the costs through their rent. There is a sense that tenants should be consulted on provision of loss-making or low-margin activities. Associations would like to know which services tenants value, whether they would use them etc. but are not completely clear on the best ways to engage to get this information. Some associations have discussed potential ventures with active tenants e.g. tenant panels – often considering the type of activity and its outcomes rather than the specific route proposed to deliver it. They have found tenants to be supportive of proposed diversification, even when it benefits the wider community not just tenants.

Some associations identify an amount of funding they can contribute from their own business for this type of activity, after first looking at what surpluses are required to maintain funding and support development/property investment programmes. Some have historically had a 'pot' for this kind of work (for example arising from stock transfer commitments) and, whilst the amount is not based on need or impact, they now aim to maintain this amount of funding and use the money available in ways that stretch its impact. A few seek to fund diversified work from efficiencies rather than surpluses, which protects the core financial position and gives a positive social motivation to find efficiencies.

Deciding how much to spend is not easy. Setting a percentage of turnover/surplus to be spent is a clear, auditable, commitment but to some this feels like a corporate social responsibility fund when they would prefer the allocation of funds to be part of the core approach to business planning based on understanding of impact. Some have questioned whether it is right to identify funding for community benefit activities only once development funds have been allocated – they feel it would be useful to compare the number or scale of housing problems solved by new development with those solved by community benefit work.

External funders can have high expectations, e.g. requirement to pay staff the living wage, despite offering only limited funding which pushes associations to operate on tight margins. In response, associations are putting more pressure on staff, and taking greater risks by reducing support available for vulnerable groups. Many are trying to identify the tipping point that would inform their decision making i.e. when they should stop delivering a commissioned service that they believe it is needed but are unable to deliver in ways they think are appropriate.

Associations are concerned that they will be pushed towards cherry picking easy clients so they can deliver commissioned work, especially if payment is based on results or throughput of clients. There are also concerns about doing what the commissioner funds rather than what clients really need – associations, particularly small specialists, do bid where their skills lie but see gaps where commissioners do not prioritise funding. They are trying to create funding streams that enable unmet needs to be addressed.

New funding sources come with new contractual requirements, and some associations have concerns about whether they can manage the risks of working with these. They also have concerns about gearing up to access new funding streams, particular in offender management, because of some companies' negative experiences with the work programme which used a similar model. Providers are having to understand their new funders' goals and the outcomes they are seeking. For example health funders may want to reduce a particular client group's use of expensive health services, whereas the housing association may be more used to trying to get the person out of that client group all together. When this is the case, specialist associations need to check they are still pursuing their corporate objectives. Lack of stability and certainty in emerging public funding sources (particularly health and offender management) can limit associations' plans for diversification and leave them treading water while they wait for clarity. Where the desired impact is on health, longer term projects and funding are believed to be beneficial, to give time for outcomes to be visible.

There is a need to be open about where services do not make money, and to be clear about whether or not they should make money. Some also feel that associations should be able to identify when money on low-margin activities would be better spent elsewhere, although others resist this more technical approach.

Orbit is developing an assessment model that helps them to evaluate current initiatives and appraise potential projects. Their aim is to get the greatest impact from their input. The model enables them to identify the social dividend from different activities, using SROI techniques, and then assess the money and staff effort invested to get this social return.

Fundamentally, and regardless of approach taken, associations are looking to maximise social benefit from limited funds, and they are concerned about equity in allocation of funds. As the role and spending power of local government reduces, more comprehensive approaches to housing association-backed service provision could develop if funding was pooled, shared evidence bases used, and shared outcomes agreed.

Financial returns

There is always an expectation of social returns from diversified activities. Associations' expectations around financial returns seem to be affected by the size and type of provider, and then by the type and purpose of diversified activity.

It is worth noting that the debate around how much non-profit work can be tolerated mostly takes place in the larger associations. Smaller and specialist providers tend not to be concerned with overall financial growth, simply that they are doing what matters and the finances stack up.

Where associations are concerned with financial performance, commissioned, grant funded, and social enterprise work are treated differently; but within these categories the type and beneficiary of the activity also have a bearing on expectations. For example:

Funding source	Type of activity	Beneficiary of activity	Financial expectations
Commissioned service – traditional model	Accommodation-based support	Tenants	Marginal return tolerated (although expectations used to be higher)
Commissioned services – payment by results	Hospital discharge	Residents Taxpayer/public purse	Reasonable return linked to saving delivered for commissioner
Grant funded	Money advice	Tenants Landlord	No return
Social enterprise	Furniture recycling	Tenants Landlord	Marginal returns
Social enterprise	Training & skills	Tenants	Reasonable return

		Community & local businesses	based on ability to participate in a commercial marketplace
Loan funding – social impact bond	Preventing offending	Community Taxpayer/public purse	Reasonable return linked to saving delivered for public services

Most associations only intentionally run a service at a loss if:

- There is a clear and direct financial benefit for the housing business that offsets the expenditure e.g. increased rent collection, reduced voids.
- They are supporting the service through a transition when it had a fixed period of time to secure other income or become self-financing.

Operational

Operational challenges and discrepancies can arise when associations diversify their activities, and so associations considering diversification are reflecting on how to maintain values, morale and skills, and manage impact on back office functions.

If a for-profit company that already provides services to an association is purchased by that association, it can be difficult to maintain the values that made it profitable once it is brought within a not-for-profit group.

When a new service comes in-house, it is important to recognise the impact on back office functions. For example the finance team needs to be familiar with the type of transactions the new service makes, the HR team may need to deal with increased activity (a particular issue for care and support providers), and the IT team may need to support platforms it uses and maintain levels of service on these. It can become necessary to explain and justify why people working in different parts of the business have different terms and conditions, for example it is common for housing staff to have a better deal than care and support staff, or for staff in commercial enterprises to have different incentive and reward structures.

Where informal, unintentional diversification of the housing officer role has occurred, it has affected recruitment practices in some associations, and training provision in others. The right skills and attitude to deliver housing management in this way are required, and staff will need sufficient time and knowledge, confidence and resilience to work effectively.

Potential risks of expanding non-core areas of work

There are risks in expanding non-core areas of work, and they affect strategy, operations, reputation, finances and governance. In planning for and delivering diversified services, associations will need to understand which risks may apply to them and identify their capacity and appetite to manage these.

Strategic risk

- Presence of diversified activities can impact on access to funding for other aspects of the business e.g. bond funders prefer a business to be simple
- Linking social value work to commissioned work means it could be lost at short notice if contracts are pulled
- Health economy and criminal justice structures are still in turmoil so accessing funding here, and having certainty about how contracts will play out, is tricky
- Pursuing opportunities one by one can lead to mission creep, and commissioning approaches can pull associations away from what they would prefer to be doing and on to what it's possible to do while still pursuing their core objectives
- Getting into a position to pursue preferences can require significant reorganisation and culture change, which can hinder operational functioning.

Operational risk

- Senior staff and boards may not understand what they are taking on – is risk analysis strengthened, do they understand management requirements, are they able to make it financially successful, do they understand where other parts of the business are exposed to new liabilities
- Higher levels of exposure to new/diverse areas of business can trigger regulatory interest
- Cultural differences between organisations or departments can hinder effective working – associations need staff who can recognise the differences, build appropriate relationships etc. to ensure both partners are on the same page
- It can be tricky to get in-house businesses to trade outside of the group rather than relying on work from the housing association. The risk is that work from the association makes the partner feel comfortable and it does not seek to grow, whilst the association wants growth in income stream and diverse income sources to bring financial strength.
- Getting involved in financial services brings new regulatory requirements - this can be mitigated if associations work with appropriate partners who are accustomed to dealing with these.

Reputational risk

- Involvement in the detail of people's lives brings reputational risk if something goes wrong, and raises issues of safeguarding and the need to ensure appropriate behaviours/boundaries are maintained. Associations need to use training and mentoring to manage this.
- Tenants and the wider public can be critical of associations if the HA becomes associated with provision of services to the 'undeserving poor'.

Financial risk

- Involvement in new areas carries entry and exit costs – associations will need to be able to quantify these as they appraise options and opportunities.
- New funding sources for commissioned work e.g. payment by results/social impact bonds; may not deliver what they are expected to financially and associations can face exposure to liabilities or inability to deliver services
- Managing multiple small income streams can be challenging and time consuming

- Investment in infrastructure for a new area of work is no guarantee of getting the work – e.g. Work Programme, and potentially probation work.

Governance risk

- Creating a group with a range of businesses can create challenges in the number of legal entities and boards to service, and difficulties in ensuring they interface effectively
- The established composition, skills and awareness of the board/executive can become inappropriate as new types of business and activity come under their remit, and lead to poor management.

Practice guidance on how to tackle potential challenges

The sections above show that the challenges relating to diversification for community benefit can particularly impact on associations' governance and decision making. The following practice guidance is intended to help board members and senior staff ensure they are equipped to make robust decisions and take effective oversight.

What boards need to oversee diversified business

As the nature of a housing association's business changes, the skills and experiences required by its board and executive will also change. Where an association is diversifying significantly into community benefit activities, boards are likely to require skills and experience in some of the following:

- Impact assessment
- Market appraisal
- Contract management
- Charity regulation
- Fundraising
- Social enterprise
- Health services
- Employment services.

Boards may wish to understand:

- The current scale of diverse activities and their potential impact on communities, the business, and stakeholder relationships
- Whether these impacts change with different options for structure and location of diverse activities
- The point at which relationships with other stakeholders become problematic, and how much of a concern that is for the association
- How to quantify likely financial and social return – and how to compare it to other opportunities.

What boards and executives need when taking on a new activity

Effective planning, understanding and skills are needed to successfully take on new activities. The following could apply to any new activity, scaled to be proportionate. Senior teams need to:

- Understand and plan for:
    - The market which the new activity sits in
    - What operational issues could be encountered that are different from usual business
    - Different funding models, financial exposures and risks
    - Reputational issues should something go wrong
    - Different regulatory requirements if applicable
    - The management stretch resulting
    - Stakeholders/partners and their own priorities
- Assess competency and capacity to deliver
- Develop a clear exit plan
- Model the worst case scenario and risk assess how it would be managed
- Have a clear integration plan and resources to enact it – HR, finance, IT.

If a separate business is joining the association, additional activities are required:

- Appropriate due diligence, financial and legal
- Discussions with lenders about the purchase price and business plan
- Agreement about the areas and speed of integration – maximising benefits and minimising tensions
- Scope all options for joint working and identify where the combined offer of both businesses could open new opportunities
- Spend time building relationships, understanding the culture and business, and identifying key issues.

Boards directly responsible for running enterprises, businesses or charities need a range of experience and skills that may not be the same as those found on the main/group housing association board. These could relate to: business, commercial, audit, risk, accountancy, legal, social enterprise, fundraising, and charity commission compliance.

<u>How to set boundaries and identify tipping points</u>

Associations need to consider both principles and capacity when establishing how much diversified activity they can/will take on and what kind of services they will provide. Once red lines are set (often based on principles), associations need to know how much diversification is too much and at what point they should stop providing a service when they can still see a need to be met. It is not clear whether associations would have enough financial capacity to diversify up to their backstop, but certainly parameters for deciding how much resource (money and time) to allocate to diversification will be useful.

Questions to inform identification of red lines could include:

- How tightly do we want to interpret our core purpose?
- Would we deliver statutory services (for money)?
- What do we feel strongly is the responsibility of the public sector?
- What activities are reputationally or morally problematic for us?
- How do we want to relate to organisations that already operate in our localities?

- What is restricted by founding articles, transfer agreements, funding agreements etc.?

Questions to inform identification of the backstop (maximum amount of diversification) could include:

- What is the association's mission, and how close are activities to delivery of this mission?
- What financial capacity exists, or can be generated, to support new activities?
- At what point are existing (and necessary) activities negatively affected by new activities e.g. due to staff time and focus, ability to access finance, changing reputation?
- At what point do organisational structures become unsuited to the range of activities undertaken, and what is the cost and appetite of restructuring to accommodate?
- At what point does it look like our red lines are being approached?

Having answered these questions, associations will be able to see the maximum diversification they can/are prepared to handle and could set triggers that would indicate proximity to the maximum amount. This would enable further diversification to be paused while more fundamental conversations about future approaches were pursued.

Questions to inform tipping points for ceasing longer-standing service provision where funding has been diversified could include:

- What levels of staff turnover or ill health would cause us concern?
- How many serious incidents can we cope with/accept?
- What outcomes are essential for this service to be valuable?

Any approach adopted now is likely to need revision in the near future because public services are set for radical change. Therefore associations should have one eye on the horizon so they can see when to revise their approach. Alternatively they could consider whether to position themselves for a future where public services are radically different, by altering their core functions and usual ways of working i.e. incremental diversification stops and intentional change of purpose begins.

Recommendations

As associations continue to pursue and expand activities for community benefit, it could be advantageous for them to work collectively to address some emerging issues, and to receive support from their trade body to increase capacity.

- The National Housing Federation, LGA and NFA should undertake joint work to explore development of shared front-line services, bringing together landlords and councils who are already considering this approach with a view to sustaining/improving local services and finding significant efficiencies in organisational expenditure
- The NHF should encourage public bodies to align objectives and commission services on a longer term basis, based on a longer term plan. This would mean that providers can align their own resources to shared outcomes, and services can develop, gain the added value from being located within associations, and properly integrate into the locality

- The NHF should provide help for housing associations that provide accommodation-based support to work with new sources of funding for commissioned services e.g. payment by results, CIC contracts, health
- The NHF should provide help for associations to prepare a business case for community benefit activities, in particular looking at modelling likely impacts
- Associations should come together to undertake more detailed work on housing associations' role as the state retreats – cuts have been noticeable so far but have not fundamentally changed the position of councils/government so incremental changes have been made by associations to date. Significant cuts are on the horizon and ad hoc flexibility may not be so appropriate for the future. It may be beneficial to explore development of locally pooled funding, use of shared evidence bases, and agreement of shared outcomes
- Associations should think about whether their core mission should be reviewed to fit with an emerging new operating context, as a 'reimagined public sector' and the consequences of that become increasingly likely.

Conclusions

Housing associations are diversifying to enable provision of services that support tenants and communities from social difficulties and reductions in public expenditure. This diversification covers activities, funding sources and ways of working. Different associations are taking different approaches, but change is significant and tangible. There are challenges for decision making and for governance in overseeing what happens, and relationships with local partners are more important than ever. Associations need to be on top of this to maximise impact and protect their organisations.

The political direction of travel makes it likely that pressures to diversify will increase. Associations will need some support to increase their capacity to respond to this pressure and, in time, some associations may find that strategic decisions are needed to turn incremental change into strategic business transformation.

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