

*Encouraging Renewal: Changing Institutional Roles*

## **6 Encouraging Renewal: Changing Institutional Roles**

The previous chapter suggested that many neighbourhood renewal partnerships would benefit from a lead agency to generate enthusiasm and confidence based on vision, and for straightforward efficient functioning. It also suggested that the role could shift from one agency to another or to the community over time, depending on the stage in the development process. Whatever is the lead agency, the essence of neighbourhood renewal is multi-agency partnerships in which appropriate agencies bring their joint skills and resources to bear on the problem. Such a mixture realises some creative fusion and the whole becomes more than a sum of the parts.

This chapter examines the changing role of the main institutional partners in renewal: the local authority, the housing association, the building society and other agencies. Since it is often local authority initiative which begins the renewal process, and provides the leadership necessary over a sustained period, their role in partnerships is discussed first. Subsequent chapters look at the other influential partner - central government.

### **Local authorities as partners**

The role of local authorities, particularly in housing, is and will continue to change dramatically. On the financial side, Housing Investment Programme (HIP) allocations are being squeezed, and capital availability will be even more restricted, with a halving of spending power for local authorities likely unless council rents rise dramatically. Improvements will need to be funded by these rent increases, and new build schemes are likely to be non-existent (Chapman, 1989). Seventy five per cent of capital receipts will go on debt reduction except for those few authorities free of debt. Particularly restrictive in terms of neighbourhood renewal may be limitations on local authority

subsidies to social housing developments, through housing associations and by land transfers at less than open market values.

At the same time as capital finance is substantially reduced, many local authorities are decentralising housing services to area offices, decentralising housing management to tenant management and other cooperatives, and diversifying tenures in their stock, thus voluntarily eroding a portion of their traditional centralised powerbase. The combined effect of these developments can only be to diminish the extent and magnitude of the local authority role as a public landlord, although not necessarily its importance in other strategic areas.

### ***The strategic local authority***

In light of the changing role of local authorities, there is a lot of discussion about a new 'enabling' role for them, and this is important. But it can be argued that enabling functions should really be perceived as a subset of strategic functions, and here they are treated as such. Also it is unlikely that many effective neighbourhood renewal partnerships will get off the ground without a positive contribution from a local strategic agency, and in most cases this will be local government. Of course, a few Urban Development Corporations do prosper but their very style of operation tends to run counter to the need for an approach to neighbourhood renewal which balances 'top-down' and 'bottoms up' tendencies.

Whatever one's views on the ideology or efficiency of local government in England, the need for a local strategic overview is inescapable. The strategic approach enables an organisation to know where it is now; assists it to forecast change; indicates how it should respond to forecast change; brings out the consequences of the response by revealing the inter-relationships between policies; and provides a framework for communicating policies and changes in policies throughout the organisation.

The strategic approach is particularly relevant for neighbourhood renewal for four reasons. First, the rate of change facing local authorities - demographic, economic, social, technological - is increasing the instability of their operating environments, but equally the choice of means to deal with those environments is increasing. A strategic perspective matches one to the other. Second, the need for renewal in some neighbourhoods and not others requires a city-wide set of priorities to ensure both efficiency and effectiveness in expenditure, and to take advantage of economic and social spillover effects. Third, efficient neighbourhood renewal requires linkages in both policy and implementation to avoid undermining the benefits of expenditure in one sector

by action or inaction in another. Decisions taken locally must be reinforced, rather than undermined by city-wide, regional and national policies. Fourth, short-term decisions also need to be reinforced by, and reinforce, a longer term perspective.

What are the pre-conditions for any local authority wishing to realise this broad scheme of functions? First, it may be necessary to make an ideological shift away from what has been called 'the assumption of self-sufficiency' by which councils have traditionally defined themselves by the direct services they provide, and in which service production has been the main linkage to the community (Clarke and Stewart, 1988). But neighbourhood renewal, by definition, involves creating the opportunity for people to do things for themselves, and for interactive partnerships of equal agencies. In revising the assumption of self-sufficiency, the local authority looks at the options and resources available in society for meeting the needs of the community in terms of its public service orientation. In housing for example, the local authority will have a strategic objective (or vision of the future) such as 'adequate housing for all in healthy neighbourhoods', knowledge of any shortfall in this objective, the options available for meeting the objectives, their own capacities, and a schedule of priorities over a future period.

Clarke and Stewart (p.8), seeking to replace the assumption of self-sufficiency, outline a new set of assumptions, which are relevant to the partnership approach:

- that there has to be a constant search for gaps and weaknesses in community provision;
- that direct service delivery is not the only response and that resources available are not limited to those within the authority;
- that there are many modes of social action and their stimulus and encouragement is a role for local authorities;
- that the role of the local authority is extended by working with and through others;
- that the local authority has to look outward to agencies, organisations and individuals as part of an enabling role; and
- that committee and departmental structures are not sacrosanct and that new styles and approaches to the business of the council and its work will be needed.

The local authority's first strategic responsibility is the promotion of a city-wide overview and sense of future vision. The challenge of urban economic, social and neighbourhood renewal requires a substantial vision of what might be; to fuel the process of confidence building (investment), and around which to build an action coalition which is a primary step in renewal. Too much of political and bureaucratic life is directed by short-termism on the part of politicians and officers - a shift of perspective is required, but this implies an organisational culture which rewards rather than penalises such vision.

Assuming a willingness to engage in a future vision and to engender the partnership approach, the next step is to fashion coordinated development strategies, for economic and general urban renewal, and for neighbourhood renewal on a city-wide basis. The alternative to the overall strategy are projects or policies developed on an ad hoc basis, desirable at a local level but not necessarily relating to existing initiatives, and therefore possibly running at cross-purposes and leading to waste and inefficiency. The coordinated strategy allows the establishment of priorities for neighbourhood action, grant giving, the subsequent development of relevant but flexible development briefs, targeting of funds, and monitoring of major issues. The existence of an overall neighbourhood renewal strategy provides the means to coordinate different policies, departments and agencies towards renewal objectives.

### ***The neighbourhood renewal strategy***

Within each neighbourhood, a renewal strategy will also need to be developed, the product of the partnership. The draft Castlemilk (Glasgow District Council) renewal strategy provides a reasonably good example of the dimensions of such a strategy. Other strategies are described in the case studies in Part II. The Castlemilk strategy encompasses inter-related strategies for physical and social organisation, housing, employment, leisure and recreation and other areas.

The following are the key objectives of the strategy.

- Develop a new neighbourhood structure which will engender a sense of belonging and a strong local identity.
- Develop a quality township neighbourhood centre having a wide range of shops, commercial, civic, leisure and recreation and entertainment uses.
- Provide local job opportunities wherever feasible and give emphasis to training and education programmes.

- Recognise Castlemilk's dependence for major increased employment on locations and factors outside the area.
- Improve access to job opportunities elsewhere.
- Change the physical appearance of the area and house form by incorporating new housing (public and private) and restructuring (including an element of demolition).
- Continue to introduce tenure change through options such as tenant co-ops and private housing.
- Ensure a good range of quality mainstream public sector housing for those who cannot, or choose not to buy, or be included in community ownership schemes.
- Improve the 'image' of Castlemilk by developing its environmental assets and transforming its total environment.
- Promote the area as a 'first choice' housing area.
- Foster local initiatives and involve the public in the promotion and implementation of projects at local level.
- Recognise the need to satisfy the evolving needs of residents and prospective residents.
- Widen the range of alternative uses for under-used schools. (Glasgow District Council, 1989).

The Castlemilk strategy is discussed in more detail in chapter 9.

### ***The neighbourhood housing strategy***

Within the neighbourhood renewal strategy can be found the housing strategy for the neighbourhood (not the other way around). More than any other aspect of neighbourhood renewal, housing is politically contentious. Some local authorities, faced with what they perceive as an onslaught of central government legislation, prefer to defend council housing at all cost, bolstered by tenant surveys suggesting that tenants prefer council landlords. In any event, with around 5.5 million tenancies, local authorities will be major landlords for the foreseeable future. But other factors are also relevant. First, from a local perspective, tenants need to be more involved in housing management. Second, councils are far from perfect landlords, and there are reasonable grounds for dissatisfaction over services. Third, the government's revolution in the housing field may be only beginning to bite.

Local authorities currently are faced with a stark choice: take control of the changes occurring and forge new local alliances, or simply let the combined effects of change take over. Some local authorities may prefer to do nothing but hope for the election of a Labour government with a different housing policy from the present one. But this may not be a viable option. For example, Chapman (1989) argues that recent and proposed changes in local government may not be easy to reverse even if there were a different administration in Whitehall.

The pro-active local authority, on the other hand, not content to let central government call the tune, may prefer a strategic role which begins with a re-examination of their relationship and responsibilities to residents and tenants:

Defending the interests of tenants and applicants may not mean defending an unchanging council sector. Nor is it likely to mean being inactive in influencing tenant choices and developing new arrangements rather than those offered by central government or alternative independent landlords. Actions to improve the quality of the stock and to enhance the opportunities for access and allocation - including through nomination arrangements - are likely to be more important than maintaining the existing form of landlordism. A different role for local authorities could deliver better services for tenants and this involves changing methods of accountability to tenants - much more constructively and permanently than is involved in the choice of landlord scheme (Murie, 1988).

A range of strategic options are open including to expand the number of partnerships to provide social rented housing; set up new housing development bodies, with 20 per cent local authority representation, based on land subsidy arrangements; and to effect voluntary transfers to existing or newly formed housing associations, community trusts, or community businesses with potential ability to re-use private finance on a substantial scale for repairs, modernisation and new building (Chapman, 1989).

The appropriateness of a particular option is not dictated by any general neighbourhood renewal model. Indeed, the reverse is true in that the diversity of neighbourhoods and the need to fashion effective community involvement suggests that the local authority:

- must be pro-active rather than passive;
- should maintain the broadest range of housing options for implementing neighbourhood renewal;

- should set out to empower local neighbourhoods and strengthen local organisations as a means of localising political control over housing;
- should perceive of tenure diversification as an option for tenants and a tool of neighbourhood renewal, not an ideological threat for the local authority; and
- should empower local residents with housing choice, with the idea of forging new and productive resident-local authority relationships, through the mediary of community-based organisations.

To accomplish these requires a disaggregated ‘fine grain’ housing policy, geared to the neighbourhood, and designed to maximise choice for residents. Such a series of neighbourhood housing policies (which have parallels with existing conservation area strategies) throughout the municipality is a logical extension of decentralisation programmes and not therefore too radical. A recasting of the Association of Metropolitan Authorities (AMA) (1987) proposals for ‘local housing strategies’ fits the neighbourhood strategy approach well:

Local Housing Strategies would provide a framework for capital investment, the management of existing resources, and the activities of the private and voluntary sectors over a medium-term timescale. The preparation of these Strategies involves the analysis of a wide range of qualitative and quantitative data and the involvement of the community in expressing demands and making choices. Compared to the existing system of Housing Investment Programmes (HIPs), Local Housing Strategies will be broader in scope, covering all housing needs identified in the locality and the full range of resources available to meet these needs. They will also take a longer-term perspective and will not be constrained by short-term issues of resource availability. Perhaps most importantly, Local Housing Strategies will aim to maximise involvement of elected members and community organisations in identifying priorities, formulating policies and reviewing progress.

The AMA presents three arguments for their concept of local housing strategies. The first is that the framework of a comprehensive medium and long-term plan is an essential context to inform day-to-day decision making. Programmes can be implemented and resources used more effectively in such a context. Second, the purpose of preparing the plan can strengthen the democratic basis of housing through community involvement in drawing up the strategy. Third, a published strategy gives local people the chance to compare strategy and objectives with implementation and results, thereby strengthening the accountability of local government to the electorate.



### ***Elements of the strategy***

Subsidiary to the strategic role is the enabling role, a term much used, and best defined as in the Oxford Dictionary as 'to authorize, empower, supply with means to, make possible'. The neighbourhood strategy can now be expanded to include:

- Area surveys, covering demographic change, need, resources and community preferences for urban renewal, housing, education, local economy, transport, environment, retailing, safety, recreation, social services, health and special issues such as those of children, mothers, disabled people, ethnic minorities, and including relevant statistics, policy initiatives and options for community involvement.
- Assessment of housing need, stock and tenure options.
- Provision of unbiased information on housing options for all citizens.
- support for neighbourhood lead/community agencies, and partnership initiatives.
- Formal and informal liaison with housing associations and cooperatives.
- Availability of land - to supply land at below open market cost to enable subsidy of social rented/mixed tenure/shared ownership developments in areas of needs, in return for nomination rights or other social benefits. The key to many developments is an adequate land bank to provide cross-subsidy. Local authorities may be able to put a covenant on land to determine its use for social housing, thus enabling social housing providers to bid on a reduced open market value.
- Leasing schemes for renting for homeless families.
- Support for voluntary organisations.
- Regulation of standards in private rented housing and use of environmental enforcement powers and grants to private sector for rehabilitation.
- Brokering and use of planning gain (section 52, Town and Country Planning Act, 1971) - similar to common practice in America, local authorities have abilities to 'broker' planning permission for community gain, social housing, environmental amenity. It is a reasonable approach to utilise private investment for overall community benefit, although there is considerable debate over planning gain and both DoE and the Royal Town Planning Institute are mounting reviews. Where local authorities are responsive to neighbourhood views planning gain may produce positive community benefits (Lichfield, 1989).

A number of enabling aspects of neighbourhood renewal are affected by the Statutory Renewal Areas set out in the Local Government and Housing Act. This is taken up in the next chapter.

***Constraints on local authority partnership roles***

There are three kinds of constraint on the effectiveness of local authority strategic and enabling roles in neighbourhood renewal: political and constitutional constraints, constraints stemming from organisational culture and structure, and human resource constraints.

Political constraints are external and internal. External constraints result from the insecure basis of local authorities as creatures of central government legislation, the erosion of their powers in recent years and the concomitant centralisation of functions in Whitehall. These issues are discussed in a later chapter.

Internal political constraints stem from lingering but out-dated housing ideologies and a failure to shift from a council sector housing policy to a city-wide housing policy. Some elected members prefer to rely on their traditional if eroding powerbase linked to council estates and council rent levels - both prime targets of central government legislation. Local authority members and parties with a more far-reaching perspective will be questioning how they can develop a new powerbase in community based organisations.

In the politicisation of the relationship of members to officers, political ideology spills over into the domain of professional organisational culture. Some elected members misuse their position to extend their influence and control into areas which are rightly the domain of the conscientious professionals they have appointed.

This seems counter to the pragmatic partnership approach which characterises the best examples of neighbourhood renewal. Ideally councillors and officer will work together to rethink the appropriate objectives and roles for each department within local government. For example, some planning departments are attempting to reassert a strategic planning function in which housing, as a service department, becomes a subset of an overall programme for economic and social renewal.

There is little doubt that by the year 2000 local authority departmental management will be very different from now. Innovative local authorities are quietly considering what organisational structure will meet the needs of the 1990s. For example, the needs of neighbourhood renewal suggests a re-juggling of responsibility among housing, planning and environmental services/urban renewal departments. Formerly dominant housing

departments may need to work more closely with smaller, more strategic departments they once disdained. The need to co-ordinate housing, urban renewal, transport, employment, retailing, leisure, health, and community service initiatives within the local authority suggests a primary role for either planning departments or for inter-departmental liaison committees with enough clout to make departments bent on their historical mission shift, sometimes dramatically, to new ways of working. For example, the last chapter drew on an emerging philosophy of community based planning, a new way of working for planning departments.

A number of points will need to be considered by local authorities prepared to examine the basis of their organisational outline.

- Whether the existing committee structure is appropriate to the needs of urban renewal in the 1990s.
- Whether existing departmental arrangements are appropriate to the tasks, or whether some reorganisation or rationalisation will be necessary.
- Whether new inter-departmental liaison and co-ordination mechanisms are required, and whether these should be on a topic or neighbourhood basis.
- Whether new extra-departmental agencies need to be created in partnership with others, for example, development companies.

Changes in organisational structure and culture, and active participation in partnerships, assume strong leadership at the officer level. Against this, a possible problem is the growing deprofessionalisation and demoralisation among local government officers and staff. Many factors are contributing to a high turnover, an outflow of qualified officers, and demoralising of remaining staff: politicisation of local government, the pursuit of ideological absurdities at the expense of basic service delivery, the relentless attack on local government by central government, bureaucratic structures that inhibit innovation, and an inability to match wages in the private sector.

A shortage of staff means those who remain have to withstand the pressure of an increasing workload and spread themselves more thinly. They may be required to take on duties for which they are underqualified. Diminishment of the size of housing departments seems inevitable. The worry is not that absolute size shrinks but that it is the best staff who decamp first, leaving less qualified staff to tackle the major challenges of ghettoisation of the council sector, the tremendous need for a local government role in neighbourhood renewal, and the delicate business of mounting partnerships.

### **The role of housing associations and housing cooperatives in renewal**

This section takes up a number of issues on the role of associations and cooperatives in neighbourhood renewal; however, discussion of the implications of central government policy on the future direction of housing associations activity is held over to a later chapter. A number of factors are considered here including the potential contribution of housing associations to neighbourhood renewal; the scale of operation of housing associations, their degree of local attachment, and the significance of this for renewal efforts, and/or action as development agents; the potential for consortia of associations; and the range of activities which associations can legitimately undertake in pursuing neighbourhood renewal.

Before taking up these points, and because of the likely enhanced role for associations in future housing policy implementation, it may be useful to highlight the most significant organisational features of housing associations. This is based on a review of professional practice by the Institute of Housing in 1985 (sections 3.3-3.10) and provides a background to discussions in this and the next chapter.

#### ***The housing association movement.***

Housing associations are non-profit making bodies, run by voluntary committees, providing housing or hostels and associated amenities. The legal definition of an housing association was first set out in the Housing Act 1957. Housing associations may be bodies registered with the Registrar of Friendly Societies, trusts registered with the Charity Commissioners, or companies which are also registered as charities. However, to receive public funds for the provision of housing, associations must register with the Housing Corporation under the Housing Act 1974 and subsequent Acts consolidating the legislation. Around 2,600 associations are now registered.

The 2,600 housing associations provide 550,000 homes at an average rent of about £23 per week. Over 80 per cent of associations are 'small', that is, manage fewer than 500 homes, but about 20 large associations own more than 2,000 properties each. The largest is the North Housing Association, with more than 22,000 homes. A further six associations own between 10,000 and 20,000 homes. The largest 14 associations control about one-third of housing association stock.

There is considerable diversity in types of accommodation provided and client groups assisted. Most associations cater for general housing needs, but some specialise in 'special needs' accommodation for such groups as the elderly, disabled, single parent families, the recovering mentally ill and young

single people. There are also associations engaged in low cost home ownership initiatives aimed at assisting first-time buyers. They either sell dwellings for outright purchase as in Improvement for Sale schemes, or in 'tranches' under shared ownership schemes. Retired owner-occupiers are assisted through Leasehold Schemes for the Elderly, in which sheltered housing is provided either at full value or at a price reduced by central government grant.

Until the recent emphasis on mixed funding, housing associations have been mainly funded by Housing Association Grant (HAG) from the Housing Corporation, a subsidy under the provisions of the 1974 Housing Act. Limits are set on the expenditure that housing associations may incur in the production of housing, which must be constructed to defined minimum standards.

The voluntary committees of housing associations are responsible for their policy and management. External control is exercised by the Housing Corporation which, under the 1974 and subsequent Acts, has statutory powers relating to registration and supervision and to the disposal of housing association property. The Housing Corporation exercises further control as mortgagee, as does any local authority which funds housing association schemes. The number of staff employed by associations varies greatly: the smallest associations are run entirely through voluntary efforts, while the largest have substantial numbers of staff in development, operational, and social service-type departments.

Housing associations therefore represent an enormous diversity of organisations, but some commonality of purpose is reflected in the often-used term 'housing association movement'. Three main aims reflect this commonality of purpose in the 1980s. First is the need for the movement to provide rented homes for those on lower incomes. Second, is the movement's commitment to providing for those with special housing needs. Third, is the movement's commitment to the rehabilitation of older, inner city housing stock (Miles, 1984). These aims suggest housing associations' particular suitability for neighbourhood renewal and this is borne out by the case studies.

Associations traditionally house the more disadvantaged groups in British society. For example, a National Federation of Housing Associations (1985) report notes that, of all housing association tenants in 1985:

- 67 per cent rely on state benefit and 76 per cent qualify for housing benefit;
- 94 per cent of households' net weekly income is less than the national average;

- 32 per cent are pensioners, 13 per cent are headed by single parents and one single person in five below pensionable age is from an ethnic minority; and
- the unemployment rate among tenants is 42 per cent.

The same survey asked tenants about the reasons for seeking housing association accommodation. Over a quarter (28 per cent) reported they were homeless or forced to leave their present home, and 49 per cent said they were in unsuitable accommodation. These figures demonstrate, not surprisingly, that housing associations traditionally house the kinds of disadvantaged clients found in neighbourhoods requiring renewal, and from 1974 until recently much of their activity has been in renewal of housing stock in inner city areas of housing stress.

Following the Housing Act of 1974, and a subsequent circular in 1976, associations were encouraged by the subsidy system to give highest priority to housing rehabilitation in inner city areas. In the years following, associations became involved 'in rehabilitation work on a large scale' (Miles, 1984). As the period between the Housing Acts of 1974 and 1980 was also one of dramatic growth in the number of associations, they had become a primary agents of rehabilitation.

Three conclusions can be drawn. First, housing associations, given their diversity and body of skills with potential for neighbourhood renewal, currently represent a substantial under-exploited resource for neighbourhood renewal. Second, skills acquired by organisations, as well as individual people in those organisations, need to be maintained and nourished or they become rusty and out-dated; this is true of the neighbourhood renewal skills of housing associations which are in danger of rapid erosion by a policy shift away from rehabilitation, discussed in a later chapter. Third, neighbourhood renewal is considerably broader in focus than housing rehabilitation and the skills of some associations may need to be further developed to meet the needs of neighbourhood renewal.

### ***Housing association diversity and neighbourhood renewal***

Earlier it was suggested that housing associations be encouraged to become involved in housing strategy at the city and neighbourhood levels. However, this begs the question however of which of the 2,600 housing associations are to be so involved, and whether size influences performance and quality of service. In terms of 'localness', neighbourhood renewal is based on a premise of 'local initiative meeting local needs', but this does not answer the question of how 'local' a housing association needs to be, or whether 'localness' can

be engendered by a large associations opening up a neighbourhood office. The question of 'localness' is important insofar as it affects the quality and the process of renewal; it will also become much more important if:

- the housing association movement takes over substantial amounts of local authority stock;
- as the need to bring in private finance based on a strong capital base begins to bite;
- as the pressures for mergers grow; and
- as concerns mount over the activities of so-called 'predatory' or non-local associations.

For example:

The 15 housing associations belonging to the NFHA's Hull liaison group were angered to learn through a local newspaper that Hull City Council is negotiating with outsider association Network to redevelop major sites in the area (*Housing Associations Weekly*, 17/3/89).

What this is about is that in June 1989 Network (the former London-based Brent People's Housing Association, now renamed to mark its national intentions) finalised a £36m deal with Hull City Council to build over 1,000 homes on 11 council owned sites made available to them using deferred land payment arrangements. Network, for its part, has secured a £7.5m line of funding from Banque Paribas. The local associations felt that if the council tied up its vacant sites with this 'outside' association, their development programmes would stop. This seems a reasonable fear, and this is far from the only report in 1989 on predatory behaviour, which is likely to increase.

In terms of size of associations, there are some voices arguing that small associations are less efficient than large ones because they are not able to realise economies of scale or they suffer from unprofessional management. Many of these issues reflect basic tensions which will be discussed in the next chapter in terms of central government policy towards housing associations.

What then is the evidence from the case studies on this point? Most of the non-national associations taking a lead in neighbourhood renewal are local, medium-sized associations (i.e., between 500-2000 units in management) rather than small (less than 500 units) associations. Because of the complexity of the renewal task and the requirement for considerable development/financial skills, this is to be expected. However, within consortia renewal programmes, smaller specialist (for example, ethnic)

associations and cooperatives play important roles, often assisted by larger associations acting as lead agencies, secondary associations or development agents.

The evidence from the case studies suggests that, given a supportive policy framework and a highly devolved development process, housing associations and cooperatives of all sizes could play an important role in meeting the challenge of neighbourhood renewal. Chapter 8 describes such a supportive policy framework, and particularly a potential expanded role for the Housing Corporation and HAG in neighbourhood renewal. Given the poor past record of single agency, single option, solutions to complex urban problems one obvious point is that maintaining a diversity of housing association types is important. However, given that the trend is towards fewer, larger, merged associations, positive action will be necessary to ensure diversity.

Local authorities, for their part, can take a positive stance to maintain the balance and vigour of the local housing association sector by a policy or a 'pact' to that effect. This approach need not exclude larger national or regional associations from local activity, but merely establishes a presumption in favour of local associations or consortia of local and national associations in the first instance. This can be backed up by formal or informal 'zoning' arrangements whereby associations can only purchase properties in defined areas. The Institute of Housing (1985, section 6.6 and 6.7) describes zoning:

In many local authority areas, associations purchasing properties for fair rent general needs schemes are 'zoned'. This means that associations can only purchase properties in defined areas. Zoning arrangements are agreed between local authorities and the Housing Corporation, and are designed to reduce competition between associations and to ensure that purchases accord with authorities' area priorities. Zoning is seldom applied to new build and to special needs schemes.

Zoning is important to authorities (as well as to associations) since it is the key mechanism whereby they can ensure, firstly, that only associations of which they approve carry out development activity, and secondly, that this activity is directed to neighbourhoods requiring priority treatment.

There are also potential advantages of encouraging consortia of associations to engage in neighbourhood renewal. For example, four housing associations in the Leicester Social Housing Consortium are involved in a major city redevelopment project in the St.Peters redevelopment area. The associations are Leicester, De Montford, East Midlands and Foundation, a new black association. Cross-funding of social housing on the site will be provided by developments in other parts of the city. In another example, in Birmingham,



two independent consortia of housing associations have been formed to compete with private developers for major housing redevelopment schemes. Copec Housing Trust and Midland Area Improvement HA have joined with Hestia HA and St. Chad's HA to form an umbrella organisation, Focus HA, which is jointly owned and allows development risk to be more widely shared. Separately, five other associations, Bromford, Harden, Mercian, Trident and Waterloo, have set up a consortium with the aim of becoming involved in major partnership developments. The associations are following guidance from the City Council which indicated associations had to organise themselves differently to become involved in major schemes within the city. Case studies of consortia developments in Part II include those at Nottingham, Newham and Southwark.

In summary, an early lead agency (often the local authority) will, before considering how best to involve housing associations in the renewal process, need to consider the following questions:

- Can the needs of neighbourhood and city renewal strategies best be met by local associations?
- Are there aspects of the development programme which would benefit from the participation of a large national/regional HA?
- Can the benefit of encouraging local initiative and bringing in national development expertise and resources be combined by a consortium approach, and if so, how can this be encouraged?

The question of the role of central government policy in encouraging a diversity of housing associations is taken-up in a later chapter.

### **Building Societies in neighbourhood renewal**

Underpinning every innovative scheme in housing and neighbourhood renewal is a financial package, often organised with the participation of a building society partner. The past few years have seen a radical transformation of the framework within which building societies operate. Prior to the Building Societies Act 1986, societies were not empowered to develop land and instead created independent agencies linked by common directorships and funding commitments, for example, Abbey National's Abbey Housing Association Ltd. to build low cost housing for first time buyers and flats for elderly people. The 1986 Building Societies Act empowers societies to hold land, to act as developers and to engage in a broad range of housing services and functions well beyond their traditional role as mortgage lenders on freehold property. Recently Abbey National has attempted to

redress what it sees as a limited access to capital markets by abandoning its traditional mutual status. But this mutual status may be in part the basis of the high esteem in which building societies have been held by the general public, according to the Governor of the Bank of the England (1987).

Abbey National's shift to PLC status has been described in *The Independent* as 'the biggest milestone in the history of the building society movement since 1875', the year of the founding of the mutual movement. Almost anything is now possible. Couttie (1987) predicts that the usual financial role of building societies will be complemented by a new role in the extension of owner-occupation, provision of specialist housing for the elderly and single households; regeneration of private rented housing; development of alternative forms of ownership through trusts and cooperatives; and neighbourhood and inner city renewal.

Evidence of new directions is apparent in a plethora of new rented schemes with some building society involvement, often based on the provision of index-linked finance. There is however little evidence yet that building societies want to take on any direct housing management functions, and their role in partnerships is mainly providing part finance to HAG mixed funded schemes, as for example as in the Nottingham or Leeds case study. Direct financial links with local authorities, as in Sheffield City Council/United Kingdom Housing Trust example, part funded by Nationwide Anglia, are rare, because of DoE disapproval of the degree of local authority initiative undertaken.

Among other new developments on the institutional front, Nationwide Anglia's and Halifax's major new urban renewal vehicle, PROBE, has been discussed earlier. At least four other big building societies have set up development companies. Nationwide-Anglia has also set up a new company, Quality Street, with an intention of creating private rented accommodation at all price levels. By 1989, Quality Street had 1,400 homes in management.

The remainder of this section looks at the main area of building society innovation in partnership finance, which is mixed tenure/mixed funding for new build and rehabilitation. The potential for further building society involvement in neighbourhood renewal is also discussed.

### ***Mixed tenure/mixed funding schemes***

One of the pioneering mixed tenure schemes, described earlier, was the partnership between the Halifax and Nationwide-Anglia for a mixed tenure development at Elm Village in Camden, London. This includes fair rent,

special needs, cost sale and shared ownership housing. No one type of housing is distinguishable from its neighbours; all are unified in design.

The Halifax was also involved in first 'mixed funding' scheme combining £10.3m of index-linked finance with a 30 per cent HAG grant to provide 566 units of fair rent housing at St. Mellon's in Cardiff. This much cited scheme involved as partners Wales and West Housing Association and the Secondary Housing Association for Wales, in association with Cardiff City Council, who provided at 36.5 acre site at a peppercorn rent in return for a covenant restricting the use of land for rented housing, and up to 90 per cent nomination rights, with a large proportion of tenants in receipt of housing benefit. The scheme was the first in the country in which the Treasury was able to accept the mixed funding principle of public subsidy and private finance, which is now being replicated all over the country at mainly higher grant levels.

A different approach was taken for the Leeds Riverside Development, described in the case study, in which the Halifax and (non-charitable) Regent Housing Society (a spin off company of the charitable Leeds Metropolitan Housing Association) combined £1.8m of index-linked funding with £1m of Urban Development Grant and Historic Building Grant to renovate old corn warehouses in formerly rundown inner city area of Leeds. Ninety two of the 120 units were rented at levels agreed with Leeds City Council. The Riverside provides much needed singles housing in an inner city area and had provided the nucleus for the regeneration of the entire neighbourhood, now including substantial private investment.

New-build on 'brown-field' sites in inner neighbourhoods, for lower cost renting or for mixed tenure including low cost owner occupation, ranks with refurbishment as a major vehicle of neighbourhood renewal. Almost every case study reports this kind of activity, often complemented by a degree of cross-subsidisation from one tenure to another, or from one location to another. As might be expected, many of the same building societies with an interest in mixed tenure, mixed funding developments are also involved in schemes to assist private housing repair and neighbourhood renewal. Building societies have made a major contribution to the success of such schemes, but as discussed below there is considerable untapped potential in the building society role.

A variation on the challenge of building society funding for inner city new build is being piloted by Nationwide Anglia for houses requiring demolition in the inner neighbourhoods of Birmingham. This involves a rebuilding grant which will support owner-occupiers who have properties too run down to warrant improvement but who retain ownership of the land after compulsory

purchase. They then rebuild on the same site or nearby whilst retaining the same level of equity in cash terms. As the new house is more expensive, there is a need to adapt the shared ownership model for people in this position and to put in an element of grant to assist. Although not cheap, this is attractive because it is less expensive than a full improvement grant and the product is better.

***The potential for further building society involvement in renewal.***

The legislative reforms of the 1986 Act provide a framework in which building societies can become major players in neighbourhood renewal. The neighbourhood renewal areas to be designated under the 1989 Local Government and Housing Act should be an attractive outlet for building society support of renewal, providing the possibility of combining extension of owner occupation with additional markets for renovation and repair, all as a back-up for the day when the owner occupation mortgage market is saturated.

Another possible area of building society involvement is in council estate renewal. The pioneering efforts of Abbey National at Stockbridge Village have been less than successful, partly because tenure diversification alone has proved insufficient to instigate neighbourhood renewal. But when the lessons of Stockbridge are digested and put in a broader context, there is likely to be considerable scope for involvement in estate renewal.

These new forms of neighbourhood renewal require the development of specialist financial products, usually with a 'low start' mechanism which can be serviced by the rental stream. Smallwood (1989, p.16-17) gives examples:

- The Housing Corporation's mixed funding programme requires housing associations to obtain low start private finance, which to date has usually been provided in the form of index-linked or deferred payment mortgages.
- Local authority stock transfers, voluntary or resulting from Tenants' Choice, may well also require low start funding. Purchasers will almost certainly often be seeking fixed interest finance as part of the funding structure.
- As borrowers become more sophisticated they will be seeking a range of products for their programmes in order that they can spread their financial risks.

But the level of demand for rehabilitation financing may far exceed building society supply, even if many more financial institutions were brought into the market. Smallwood warns that a heavy reliance on low start finance may be

misguided because of low rates of return compared to alternative options, because the product produces a negative cash flow for the provider in the early years of the loan and because rented housing initiatives require long term funding, often up to 35 years.

As the reader may have noticed, it appears that most innovation and activity in housing and renewal is coming from the same three or four building societies. These few societies are committed to providing finance for all housing tenures and are at the forefront of innovation, both in developing specialist financial products suitable for mixed tenure neighbourhood renewal, and by working in partnership with enablers and providers of housing. Given the development time, individual fine tuning required and risk involved, it is unlikely that financial institutions other than these three or four socially oriented building societies will commit substantial funds to lending for neighbourhood renewal.

These constraints raise some fundamental questions of public policy. One is whether social needs can be met by what must be, at the end of the day, commercial organisations, and if so, what the appropriate balance is between government subsidy, private finance, interest rates and rent levels. On this point, Hawes (1988,p.13) observes:

As societies take a wider role in meeting housing needs so they will come to have a more important influence on the social and welfare aspects of housing provision and will become susceptible to demands for a degree of social responsibility at the moment only required of local authorities. So far, their involvement is in housing markets dominated primarily by commercial imperatives, and there is little indication that issues such as those relating to minority groups, the handling of mortgage debt and issues of racial discrimination in access to housing have been given any consideration.

Current institutional arrangements, if unaltered, may also limit the scope of building society participation in neighbourhood renewal. For example, research into building society attitudes by Cole and Wheeler (1987, p.157) identified capital adequacy provisions as a major constraint on diversification into rented housing. Under the Building Society Act, capital adequacy (the ratio of a society's lending to its capital backing) is subject to different risk weightings, with higher weightings for new functions such as innovative housing finance. The impact of these controls is two-fold: the scale of finance for new housing initiatives is limited, and increased capital accumulation (profit) is necessary to build up reserve backing to facilitate the desired scale and character of new activity. Cole and Wheeler conclude:

Most societies have operated in the past on a low reserve base and have therefore little room for manoeuvre to pursue housing ventures, especially when they involve direct development and ownership of rented housing. The combination of growing competition and legal constraint has effectively ensured that any incursions into the rented market by building societies will not be promoted by social considerations, or not to the extent of the Government's expectations. Profitability will rule. Cross-subsidisation of housing schemes is extremely unlikely and non-profitable initiatives in rental activity are simply out of the question.

It is also the case that increasing pressures on building societies to be more commercial and even contemplate conversion to plc status flow substantially from the requirements of the capital adequacy regime.

The degree of building society involvement in neighbourhood renewal will also be dependent on the perception of risk in these ventures. Thake (1987a), for example, argues that 'building societies will only get really involved in the inner cities on large scale projects which are risk-free'. The government therefore may need to question what needs to be done in terms of the management and transfer of risk to encourage more private financial involvement in renewal. Again the urban development corporations provide a good example of early risk taking by government producing substantial longer term returns and high levels of private sector investment. Thake's suggestions are:

- local-authority and Housing Corporation guarantees for private-sector funding of social housing;
- the consolidation of existing tax benefits and the introduction of new forms of tax breaks to support rented housing; and
- direct government subsidy supporting environmental improvements, associated with privately-funded social housing.

Given a workable financial regime, there should be substantial scope for building society involvement in the new Renewal areas under the 1989 Act, and in neighbourhood renewal in general. But, although building societies are increasingly lending on older houses, there will also be a problem for the rump of worst condition private sector stock, a segment of the market where price rises and thus capital gains do not match those in the wider market (Brindley and Stoker, 1988). Owner occupiers of this stock may require grant-aid to encourage building society involvement and to re-create economic value through neighbourhood renewal.

There is a further problem for building societies new to neighbourhood renewal. Because the great majority of their lending is underpinned by vacant possession market values, they may have to make a substantial change in perception to find as acceptable business practice loans secured on future rental income streams. This is particularly crucial in run down areas where local vacant possession prices may offer less security than capitalised rental income.

Finally, as Couttie pointed out in 1985, 'building societies have little experience in housing. Their skills are in the provision of housing finance and there is a vital difference between the two'. For all but the most innovative societies this still holds true. If building societies are to take advantage, and create, new markets by playing a positive role in renewal, they will need to redress this lack of skills, and their reputation for centralised, conservative decision making. Head offices will need to create an organisational framework in which local manager involvement in neighbourhood renewal, and initiative in finance and decision making, can be part of their contribution to the partnership process. A rethink of traditional organisational structures responsibilities and rewards may be necessary.

An advantage of the national perspective of building societies is that they can play a vital role in transfer of knowledge about what works, and what does not, in renewal from neighbourhood and from city to city. Equally they are in a position to lobby central government to create the necessary policy conditions for effective neighbourhood renewal. The relative freedom afforded by the 1986 Building Societies Act gives building societies the opportunity to define socially productive and alternately profitable vehicles for neighbourhood renewal.

The next two chapters examine central government policy and its potential to contribute to neighbourhood renewal. Chapter 7 looks at the Local Government and Housing Act of 1990, and chapter 8 looks at the broader policy framework.