UNDERSTANDING PERFORMANCE MEASUREMENT

IN THE SOCIAL HOUSING SECTOR IN ENGLAND:

THE CASE OF HOUSING ASSOCIATIONS

By

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Abstract

Performance measurement was introduced and, many would argue, imposed on the social housing sector but now there is a growing interest in its intrinsic benefits to public organisations themselves, not only for internal regulation but also as a means of demonstrating social accountability. This thesis is about performance measurement in practice but it sets this within the framework of various theoretical approaches to the subject. The thesis proposes four research questions: why do housing associations measure performance; how is performance information used - by whom and for what purposes; what factors influence the development of performance measurement; and what has the performance measurement approach changed in the housing association sector? Through a discussion of the literature on performance measurement in the context of performance management and practical case studies, the thesis answers the four research questions. The central conclusion of the thesis is that performance measurement is a significant driver of the use of performance information in social housing management, in particular for decision-making on the delivery of housing services. The thesis reveals the hybrid nature of performance measurement, where managerial and social values currently prevail, in contrast to the traditional assumption of a dominant 'political control' role.

DEDICATION

I DEDICATE THIS THESIS TO MY FAMILY

SEUNG-MI NAM AND DAE-KONG

WOEL-SUK CHOI

YOUNG-MI, YOUNG-AE AND YOUNG-ROK

AND

THIS THESIS IS ALSO DEDICATED IN LOVING MEMORY TO MY FATHER

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I could not have imagined having better supervisors for my PhD study.

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CHAPTER 1

INTRODUCTION

1.1 Background

Understanding performance measurement is an important and complex issue in the social housing sector. Performance measurement is a key feature of public management 'reforms' in Britain. It has become significant in all aspects of the social housing sector, in particular within the decision-making cycle. In this sense, performance measurement is regarded as an informative methodology of measurement. It is a multi-faceted concept. At one level, it can provide a warning that things are going wrong. At another it can be a sophisticated management tool. To be effective, it depends on the availability of appropriate data from the organisations whose performance is being assessed: in this case, housing associations.

The role of housing associations in the social housing sector is active and varied. They have a general responsibility for providing social housing services in the geographical areas where they work, and housing associations have expanded their tasks in recent years. A basic requirement is for housing associations in the social housing sector to provide value for money in terms of the 3Es (Economy, Efficiency and Effectiveness), and apart from the economic factors for quantity performance, social accountability is a considerable factor for housing associations. Moreover, the situation in housing associations has to compare well with that of other public and social organisations and the private sector. So, for these housing association objectives to be achieved and a satisfactory service quality met, associations have to establish an effective service delivery framework, and a good feedback

system to find their weaknesses and strengths.   Inevitably, financial performance and social accountability are confused because they concern so many issues.   There is a great deal of performance measurement relating performance information, control and management strategies, some of it concerning particular aspects of social accountability such as tenant satisfaction.   Performance measurement has positive aspects, but concerns are raised also about its negative impacts.

1.2 Research aims and questions

This thesis explores how performance measurement is understood and applied in the English social housing sector, with particular reference to housing associations.   It begins from the perspective of performance measurement studies that see the challenge of improving performance as a central concern of social housing management.   Since the early 1980s, the social housing sector has tended to emphasise performance management activities, such as the development of performance measurement, management strategies, 'value-for-money' and 'best value'.   Many housing associations have enthusiastically embraced these developments.

Much is known generally about social housing in Britain and about performance measurement in the public sector, but relatively little research has been done on the use of performance measurement in English housing associations.   In the light of this, performance measurement by housing associations is a timely and relevant topic for research.

The aims of the research, therefore, are to investigate and explain why housing associations measure their performance; to explore how performance information is used in practice by

housing associations; to identify what factors influence performance measurement activities; and to explore whether, and if so how, performance measurement can change both housing associations and the process of performance measurement itself.

Thus, the main questions for the research are:

- Why do housing associations measure their performance?

- How is performance information used?

- What factors have influenced the development of performance measurement?

- How has the performance measurement approach changed the housing association sector?

These questions arise from a study of relevant academic and policy literature that provides both a conceptual and a policy framework for investigating performance measurement in the social housing sector, with particular reference to housing associations in England. The questions are investigated, in part, through case studies of two housing associations in the West Midlands region of England.

The first research question, through a critical examination of relevant theory, explores the reasons for performance measurement. The aim is to fill some gaps in the understanding of performance measurement in general, particularly from the point of view of users.

The second question looks at the uses of performance measurement: by whom and for what purposes. In what ways do housing associations and regulatory organisations use it?

The third question explores the factors, including institutional, behavioural and cultural factors, which have influenced the development of performance measurement in the social housing sector.

The final question draws mainly on the case studies and relates not only to internal changes that may have occurred within housing associations themselves but also in their external relations with sponsoring and regulating bodies.

1.3 Research methodology

The choice of research methods is an important part of research design. In this study, the methods chosen are intended to investigate performance measurement as a government system, in particular in the social housing sector. The intention is to capture the relationships, interactions, structures and experiences of performance management.

Following the initial substantial review of literature, a case study approach is adopted. Information relating to the selected cases is collected from documentary and statistical sources, mainly from the internet, and this is followed by in depth qualitative investigation, largely through semi-structured interviews with key people in the selected housing associations.

The two associations studied are Castle Vale Community Housing Association and Midland Heart Housing Association, both based in Birmingham. The aim is not to provide a comparative study of the two organisations but rather to develop an understanding of performance measurement activities in practice, through the experience of two associations of

different scales with different histories and objectives yet both subject to the same externally imposed performance regime.

1.4 Contents and structure of the thesis

The thesis explores and develops the issues raised in this Introduction: first with an overview of the performance measurement literature that, variously, has influenced and analysed the social sector reforms that have been a key feature of the performance management culture in Britain since the early 1980s. It then looks at the characteristics of housing associations; their key regulatory organisations; and the processes of performance measurement in the social housing sector, as applied in practice in the two case study associations. The thesis concludes with a discussion of key findings and some suggestions for further studies.

Chapter 2 reviews the literature on performance measurement as part of performance management. It is concerned with the performance movement and other radical ideas, such as those of the 'new right', the development of competition, the promotion of performance measurement and the value of managerialism.

The last three decades have brought significant changes in social housing policy in Britain and some of these are explained in Chapter 3. Many of the changes have influenced, directly and indirectly, the development of the housing association sector. Chapter 3 looks at key texts and issues in the field of social housing. It covers the history and main roles of housing associations in England in the context of national housing policy. It shows that housing associations have developed an important place in the social housing sector, and have contributed to and been part of a rapid process of managerial change.

Chapter 4 reviews a range of analytical approaches to performance measurement issues in the social housing sector, including performance measurement systems for housing associations. It shows that performance measurement is quite complicated in practice, and that simplistic forms of measurement through numeral indicators are often inadequate. It is argued that in many cases the regulators and the housing associations need to develop approaches which are more comprehensive than a set of indicators focusing on financial factors. Of course, financial performance is a part of the performance measurement results, but efficiency, effectiveness, tenant satisfaction and other key indicators need to be given at least equal attention.

Chapter 5 reviews theoretical approaches to the study of performance management and discusses a number of theories which highlight the need to develop performance measurement approaches. It is important to note how the thesis is informed by this theoretical discussion and review of the literature.

Chapter 6 is about methodology. It presents the research questions that are drawn from the literature review. Based on the research questions, the chapter sets out the analytical framework and then explains the case study approach and other methodological issues.

Chapters 7 and 8 provide the background to each of the two case study housing associations, Castle Vale Community Housing Association and Midland Heart Housing Association. The chapters include key issues, performance measurement results and recent comparative performance (against peer associations) of the two case study housing associations.

Chapter 9 presents an analysis of the case study data including information from the literature and the interview data. This provides key findings from the research in terms of the research questions developed from the methodological framework.

Chapter 10 presents the overall conclusions of the research, summarises the findings in relation to the research questions, discusses the contribution of the thesis to our understanding of performance measurement in the social housing sector, reviews the methodology adopted in the research, considers the limitations of the study, and suggests areas for further research.

CHAPTER 2

PERFORMANCE MEASUREMENT IN ENGLAND

2.1 Introduction

This chapter discusses the academic background of performance measurement and the historic background of performance management in England. It also presents key elements of performance management. The chapter has two main purposes. One is to discuss performance management; the other is to provide an account of performance measurement taken to mean 'a significant part of performance management'. Although the main theme of the thesis is performance measurement, the subject must be looked at within the broader context of performance management.

Performance management is one of the fundamental terms this chapter seeks to define through literature review. Performance management is a key feature of public sector reforms (Hood, 1991; Pollitt, 1993; Rhodes, 1994; Hoggett, 1996; Butterfield, Edwards and Woodall, 2004: 396-398). In the performance management literature, commentators have stressed that performance management has been a common feature of reform in the public sector and related organisations (Hood and Lodge, 2004: 314-315; Pollitt and Bouckaert, 2000: 31-32; Hughes, 1998: 66-68). The development of performance management ideas in Britain is most often explained as a political and economic process designed to bring about change in the public sector.

As a significant element in performance management, performance measurement is a familiar subject. Performance measurement has long been seen as a salient factor in building

effective government. But performance measurement has its origins in the private sector and it can be said that the ultimate objectives of both private and social organisations are to run better (Ingraham, Joyce & Donahue, 2003: 4). Performance measurement also is an important element in the process of policy making (Pollitt and Bouckaert, 2000: 6). Performance measurement not only contributes to public accountability (accountability to the people) but also allows government clienteles to identify areas of organisational deficiencies by government superiors (intra-government accountability) (Behn, 2003: 593). It is a key element of the government agenda to secure social accountability in such a way that public-funded organisations are accountable to the public for their work and for the public budget they spend: it is argued by government that this can be done through publishing their performance (DETR, 1999: 11). There is quite widespread acknowledgement that the traditional political accountability of the public service is itself no longer sufficient, and performance measurement can provide evidence that is more acceptable to both social organisations and the public, and which provides a standard or 'bench mark' of what social organisations have done (Wholey and Hatry, 1992; Berman and Wang, 2000; Williams, 2003).

2.2 Performance management

2.2.1 Definition of performance

The meaning of 'performance' in the social sector is defined in terms of achieving the objectives of the social organisation (Gaster, 1995: 21). It is a matter of trade-offs between service providers and the demands of members of society. The social sector needs to be concerned not only with the effectiveness and quality of its services but also with equity, justice and democracy. In the early days, 'performance' was presented as essentially 'new'

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because the social sector had concentrated on multi-purposes including the 'three Es' (Economy, Efficiency and Effectiveness), 'securing value for money' and improving social service delivery. On the other hand, 'performance' is sometimes regarded as 'old' because performance in the social domain was taken to mean 'saving public expenditure' (Leach and Percy-Smith, 2001; Stewart and Walsh, 1994). One definition of 'performance' is the 'economic acquisition of resources' by an organisation in achieving the purpose of the organisation (Rouse, 1997). The three Es emphasised by the social sector in England in the 1980s and early 1990s were about improving 'value for money' in the delivery of social services. Nutley and Osborne (1994: 118) suggested that defining successful performance in the social sector required achieving the three Es in economic terms, and accountability in respect of social tasks. Different organisations can give different meanings to performance, and meanings can vary over time. Performance has become a requirement of social sector management and although improving performance and accountability are significant, they are inherently difficult and ambiguous because the nature of the social sector is different from the private sector.

2.2.2 Definition of management

There are differences in character between social and private organisations. The former are administered for the public interest, and the latter are managed for private interests. However, there are also many similarities between them. Both have to manage their resources and to be accountable to their stakeholders in the use of those resources (Keeling, 1973).

Management in the social sector

Management first developed in the business sector. Public sector organisations took advantage of management, but were slow to deploy management concepts, methods and techniques in the social sector. There has been a lot of debate about the social sector attempting to learn private management strategies from the business sector, partly centred on the differences between the social sector and the business sector in terms of organisational goals, environments and objectives which can mean that business concepts may not apply in all public management matters. The private sector requires cost-effective management to secure its goals, but the public sector can be less cost efficient where other public benefits are seen to have priority (Elcock, 1986; Kingdom, 1986; Chandler, 1988). Whereas the private sector is based on the premise of earning, the social sector exists to provide services that are of benefit to service users. Even the term 'management' is controversial between the private and the social domain. Managing in the social sector is often a complex task, whereas management in the private sector is sometimes presented as a simple task of serving individual wants. In the social sector, social organisations have a multi-linear task to serve a variety of individual needs and create collective welfare service (Ranson and Stewart, 1989:19). Despite the views of the traditional distinction between the private and social sector, applying the market principles of management into the social sector has become identified as 'the international march of history' (Osborne and Gaebler, 1992).

The social sector often involves charities, service organisations and not-for-profit organisations that share social values focused on democracy, accountability and equity rather than individual self-interest. Farnham and Horton (1996) claimed that 'management' is the way that private businesses achieve their benefits effectively, but in the social sector 'administration' was a more appropriate term to describe the running of publicly-funded bodies. Changes in the social sector in the 1980s had emphasised 'performance' which was

different from 'traditional public administration' and 'business management'. In terms of social management, performance management is a key part of the evaluation process that includes 'performance appraisal', 'performance monitoring', 'performance evaluation', 'performance indicators' and 'using performance information'. According to Nutley and Osborne (1994: 122) the main objective of performance management in the social sector is to help social not-for-profit organisations to achieve their goals and ensure the quality of social services.

Certainly, the social sector is different from the private sector. In the private sector, an organisation can have the single aim of maximising profitability. On the other hand, the social sector is concerned with an unlimited variety of individual needs. This may require a different approach, in contrast with the market-driven nature of management in the private sector.

From Administration to Management

It is quite difficult to determine what administrative systems or managerial systems are. However, the strong contrasts between management and administration are that managerial systems are based on flexible structures through decentralisation, and are concerned with the economic use of resources. Administrative systems, on the other hand, tend to have more hierarchical structures dominated by an elite. In the social sector, social services were provided traditionally by administrative non-profit organisations. Thus, the social sector was characterised by bureaucratic administrative structures and systems. Administrative systems are also concerned with the use of resources according to the law and procedures. Traditionally, administrative systems had managerial functions, while managerial systems

had administrative functions, yet the managerial function in the social sector tended to be bureaucratic because the social sector preferred administration to management. But since the 1970s, the managerial function has become important in decision-making, budgeting and analysis in the civil service and this marked a turning point from the old stereotypes of what constituted 'public' and 'private' management and administration (Hogwood and Gunn, 1984; Horton and Farnham, 1999: 40).

'Management' is seen as a generic methodology to manage anything as quickly, effectively and cheaply as possible. The concern for commercial values is regarded in terms of competition, performance and privatisation but the public values are retained in terms of devolution, governance and accountability. These elements of managerialism have been seen as a useful option for the management of the social sector (Cunn, 1987: 35; Metcalfe, 1993: 170-173).

> Managerialism is a set of beliefs and practices, at the core of which burns the seldom-tested assumption that better management will prove an effective solvent for a wide range of economic and social-ills (Pollitt, 1990: 1)

Dunleavy and Hood (1994) acknowledge that 'management' can be perceived as 'traditional administration but differing in style and emphasis'. Both management and administration have much in common, but there are many differences between them. The term 'management' is described as 'the search for the best use of resources in pursuit of objectives subject to change', but 'administration' is regarded as 'the review of an area of public life, of law, its enforcement and revision'. It is clear that the term 'management' is used to refer to the system and process of executive organisations. However, 'new management',

particularly in the social sector, is regarded as a new kind of activity, which is very different from the older meaning of traditional administration (Keeling, 1973; Pollit and Bouckaert, 2000: 13-15).

2.2.3 Performance management in the social sector

The impact of management reforms has brought significant changes in the nature of not-for-profit organisations. Performance management has become an important feature of attempts to improve the quality of public services, but is a difficult challenge because of the contrasting character of the private and social sectors. An organisation in the social sector is defined as a body which supports social activities without monetary profit. Performance management in market-driven reforms in the social sector is more than simply a private business exercise to maximise benefits. Performance management is concerned with the process for achieving the objectives of organisations in the social sector, through 'formulating', 'implementing', 'monitoring' and 'controlling' organisational strategies intended to achieve better effectiveness by managing change (Thompson, 1990: 2-5; Rhodes, 1997). 'Performance management' is not only a process but also a way of trying to ensure the quality of the services being provided.

Management approaches to the social sector

There is confusion over terms or meanings such as performance management, effective strategy and planning management. Attempts to define performance management have been connected to key dominants and organisations. In a public service context, the broad definition of performance management frameworks was developed by the Audit Commission and the UK National Audit Office after the late 1980s. Performance management is

significant where the goals are to produce better social services with limited public funds; and to be publicly accountable for the funds that are spent. Rouse (1997: 76) defines performance management as the process 'from the inputs to the outcomes'.

Figure 2-1   The value-adding process

| Inputs | Activities | Outputs | Outcomes |
| Resources used: Employees, materials funds | Organisational processes | Services/products produced | Impacts: increased welfare For service users |
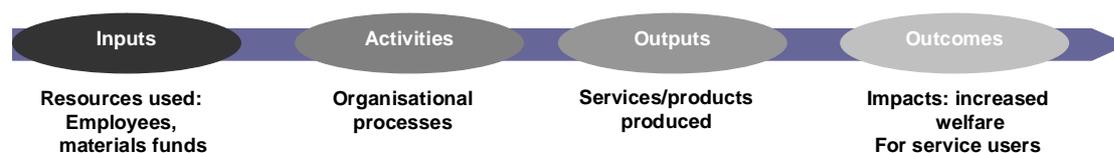
Source: Rouse, 1997

Figure 2-1 shows the process, in an organisation or programme, of moving from inputs to outcomes. Performance management is concerned with the process and with the value-added in terms of the impacts for service users.

According to Figure 2-2, the virtuous performance management cycle has four stages of organisational activity, represented as 'plan-do-review-revise', within a framework where the various dimensions of organisational 'culture' are catalytic factors in the process of achieving change.

Figure 2-2   Performance management cycle
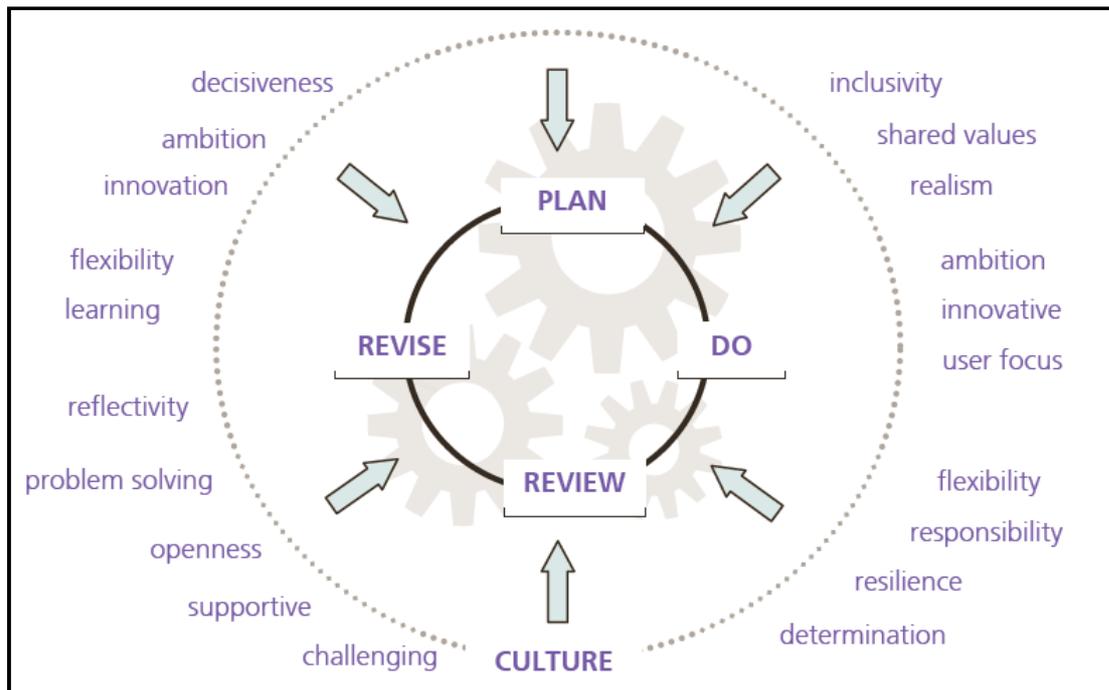
Source: Audit Commission, 2006

In performance management, having good technical skills and a supportive culture are very important if objectives are to be achieved effectively. It is said that the management of social organisations is inherently 'bureaucratic', 'incrementalist' and 'particularist'. A supportive culture, therefore, is essential to mitigate these characteristics.

2.3 Historical background of performance management in Britain

This section presents the historical background of performance management in practice in Britain. It is divided into two parts; relating to the periods before and after the election of the Thatcher government in 1979.

2.3.1 Before 1979

Performance management is not new, but it played a key part in political and economic changes after the Thatcher government was elected in 1979. It has been said that 'gentle' performance management started in the 1960s. But the changes turned into a 'revolution' from the beginning of the 1980s (Butler, 1994: 398). Early performance management was influenced by the public administration model, which advocated the traditional concerns of political, bureaucratic values (Butcher, 1995: 2). From the end of the Second World War in 1945, performance management in public-funded services became important in the allocation of public resources. It was perceived as a central activity to ensure that responsibility for public expenditure lay with senior civil servants. Performance management in the post war years placed more emphasis on the management of public resources, particularly public finance (Horton, 1996). During this period, performance management was very important because of 'a range of foundation laying decisions taken regarding the operating parameters of the public sector influenced by the 'Morrisonian model'. It was based on the Keynesian economics that influenced the expansion of public services, particularly in local authorities, the Civil Service and the National Health Service (McTavish, 2005: 122; Theakston 1999). Overall, the adoption of performance management after 1945 led to developments in managerial approaches and services. However, the growth of public expenditure during this time was seen to follow the expansion of public services, rather than the adoption of particular approaches to public sector management (Kreiger, 1986).

In the 1970s, the deteriorating economic situation stimulated government's policy to adopt a more private sector philosophy. The economy in the 1970s was a quite different situation from that in the previous decade. In the 1960s, the British economy was characterised by a 'treble affluence': public expenditure and services expanded, the standard of living rose and domestic product increased. Economic growth was almost taken for granted. However, in

the 1970s, the British economy declined due to inflation and rising unemployment. The economic downturn prompted the British government to consider the size and role of the public sector at all levels. Economic factors shaped the political agendas for public reforms (Wright, 1981: 3). Many writers argued that the reason for these economic problems in Britain were due to the failure of the Keynesian paradigm (Wright, 1981: 10; Gamble 1985: 192-197: Keegan, 1985: 138; Riddell, 1989: 32-34). The need for public sector reforms in Britain was accompanied by increasing criticism of Keynesian prescriptions.

2.3.2 The Thatcher government and beyond

The Thatcher government's economic policies were an embodiment of its desire to attack inflation and cut public expenditure, and to reduce the public sector borrowing requirement. The reduction of public expenditure was applied across almost all public areas including social services, education, housing, the environment and social security. Margaret Thatcher's Conservative government set out to reform the political and economical boundaries of Britain. The aim was to substitute markets for political hegemony in approaches to public organisations and services. The objectives of performance management both before and after 1979 were basically the same in terms of accountability for public spending, and improving the quality of public services. What distinguished the period from 1979, however, was the political imperative for change, backed by the language of 'reform' and 'revolution'. For example:

> The management revolution in the civil service is not just concerned with cost cutting and increased efficiency, essential though that is. It involves targeting investment more closely to identified needs and ensuring that these needs are met in the most effective way. It also means making the best use of people, and so

improving personnel management as well as financial management (Mueller, 1985: 1-2).

The dramatic changes in public-funded services took place in a changing international environment, marked by the spread of capitalism, globalisation and technological revolution. This affected not only Britain but also many other countries. Prevalent ideas included privatisation, competition and the managerial approach. The 'New Right' attempted to expand the enforcement role of central government and to apply 'new managerialism' into the public sector. The ideas of the New Right were to bring civil servants much closer to and to be more accountable to their 'service users' or 'customers' (McTavish, 2005: 126). For example, the Financial Management Initiative (hereafter FMI) was introduced in 1982 to achieve greater performance and accountability in public services, by devolving responsibility for goals, budgets, spending and performance to operational levels within government departments. The FMI approach influenced the Resource Management Initiative and the way the Audit Commission inspected local government and other public organisations (Day and Klein, 1985; Rouse, 1997). Another major objective was to minimise the size and maximise the accountability of the public sector. One role of the New Public Management was to critique the expanded welfare state (Dunleavy, 1991).

The Blair government, elected in 1997, continued these public service reforms in terms of a 'Third Way', which combined 'both social democracy and neoliberalism'. The Blair government moved from the 'Old Left', and accepted the market-liberalism of the previous Conservative governments (Horton and Farnham, 1999: 3; Giddens, 1998: 26). Since the late 1990s, a widespread change has been that managerial accountability has emphasised the role of governance systems in delivering public-funded services. These require publicly-

funded agencies to work together effectively, and elected representatives to develop managerial skills and related personal qualities (Ferlie, Ashburner, Fitzgerald and Pettigrew, 1997: 196-199). It has been argued that performance management has become more user-responsive than politically-answerable. It includes the concepts of governance, partnership and citizenship at the strategic level and it considers questions arising from these concepts at the operational level (Pollitt and Bouckaert, 2000: 15-17). Day and Klein (1987) argue that accountability problems arise from delivering the wide range of public-funded services that constitute the welfare state. Accountability in the social sector has been distinguished in two ways: social and managerial. The first is about responsibility to the people, such as accountability to tax-payers. The second is about responsibility for meeting agreed performance targets. The traditional accountability of the social sector as a 'guarantor of probity' has been changed by the introduction of New Public Management to a managerial accountability incorporating entrepreneurial values. Managerial accountability in this sense emphasises the satisfaction of users as customers. Reporting the results of performance measurement is a means of ensuring both social and managerial accountabilities. Ensuring accountability is an important element in the wider social responsibility of social service values.

2.4 Key determinants of performance management

This chapter moves now to the observation of key elements of performance management in order to develop a detailed, more practical understanding of the phenomenon. Performance management cannot be adequately perceived without reference to the significant causes of change in the social sector (Pierre, 1995: 205-207). The evidence comes from politics, public administration and economics. At this point it is useful to examine more closely the

reasons for the development of performance management, which relate to both political and economic factors. At one level, performance management can be seen as a global movement of the last two to three decades, which has been shaped by a number of distinctive factors, or key determinants, including the so-called New Public Management (NPM), politics and economics.

This section begins with a discussion of NPM as a key factor affecting, and affected by, performance management. NPM has been a world-wide influence in public sector reform since the 1980s and has taken economic principles into the public sector. The next sections then consider some broader perspectives, looking at the role of political and economic factors in the development of performance management in the public sector. For example, public policy is the product of a political process involving central government, local authorities and other social organisations. A key aim is to provide an overview of the ideas that appear to have informed the thinking behind performance management as pursued by British governments. Finally, the influence of economic factors on performance management will be considered. Economic theories, such as privatisation and competition, can be seen as the product of significant shifts in government policy based on economic principles. These key determinants are then linked to the main reasons why performance management has become important in the social sector.

2.4.1 International approaches: New Public Management

Even if New Public Management (NPM) has now been overtaken in the history of the development of public administration, its effects are still evident in public sector reforms. The growing emphasis on NPM has become common practice in many countries. It is

arguable that NPM has hardly become a global norm, but many developing countries, sometimes under the influence of donor countries or international agencies, have also implemented NPM principles in public sector reforms, many relating to performance management.

Definition

Public management can be considered as a central theme in public reforms. A number of governments have brought the process of public service delivery closer to business methods. Generally, public management reform has occurred within OECD countries. Hood (1991) says that the origin of NPM lies in two different streams of ideas. The first is the 'new institutional economics'. This idea comes from the development of public choice theory, transaction cost theory and principal-agent theory. The second idea is that of 'business-type managerialism' in the public sector. NPM has been characterised as 'a component part of the restructuring of the public services', as 'part of the desire to place public services in market or quasi-market services', and as 'the displacement of old-style public administration with a new management focus in public services' (Lapsley, 1999:201). The New Public Management has been strongly influenced by the desire to introduce market principles into the public sector. often associated with theoretical approaches, such as 'public choice theory', 'bureau-shaping' and 'post-modernism' (Barberis, 1998: 454). Generally, the direction of change from public administration to new public management was influenced by political and economic considerations. Figure 2-3 shows the direction of change.

Figure 2-3   From progressive public administration to new public management

High

Density of rules limiting the freedom of public officials in handling money, staff, contracts etc.

Progressive   Public Administration (PPA)

New   Public Management (NPM)

Low

Degree to which the public sector is 'insulated' from the private sector in personnel, structure, and business methods

High
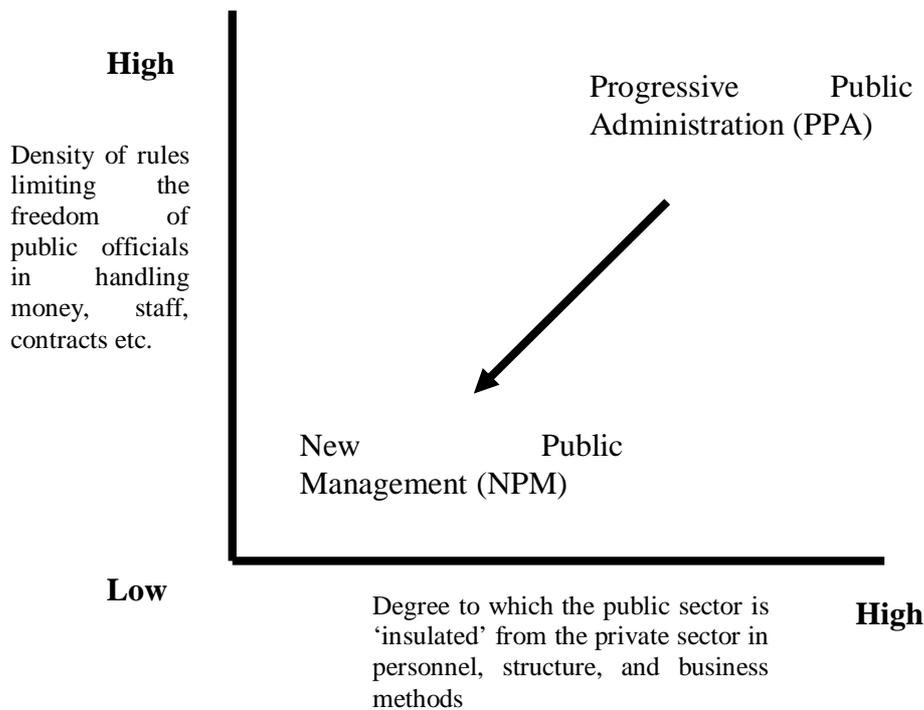
Source: Dunleavy and Hood, 1994: 10

The shift between the two models of public sector administration/management involves several distinctive changes.   Dunleavy and Hood (1994) suggest that the move from public administration to new public management was accelerated by the growing importance of performance measurement systems, competition and de-concentrating provider roles.   Leach and Percy-Smith (2001) say that the NPM emphasises:

1) The need for delegation to managers, with significant discretion and flexibility in the delivery of services, 2) the introduction of elements of competition between service providers, 3) leaner, flatter management hierarchies, with more discretion for front line workers, 4) flexibility in pay and conditions, including where possible performance-related pay, 5) more consumer choice and diversity in provision (Leach and Percy-Smith, 2001: 27).

Overall, NPM based on the free market principles of the private sector has influenced not only the development of performance management defined simply as the systematic process of making decisions for best practice, but also Conservative party policy towards the public sector, as seen in the Thatcher governments and their aftermath.

International movement

New Public Management has encouraged 'management', 'consumerism' and competition for efficiency of public services (Butterfield, Edwards and Woodall, 2004: 396-397). NPM has become important within OECD countries. After the 1970s, governments in OECD countries tried to develop their own approach, using business concepts in a selective way and in Britain, NPM became an established regime during and after the Thatcher government. NPM has been criticised in terms of a contradiction between 'equity' and 'efficiency' values. Whether the factors are partly compatible remains to be seen, but the two can conflict, particularly where the public sector has 'equity' as its primary objective. Moreover, the weight given to each of the two factors varies in different countries (Jackson, 1989; Hood, 1991). On the other hand, while it is not disputed that the NPM movement is an international trend, there are differences internationally according to countries, managerial experiences and behaviour (Rayner, 1983: 3; Metcalfe and Richards, 1993: 155-156; Hood, 1995; Lapsley, 1999:202). Indeed, NPM has included 'a range of techniques involving performance review, staff appraisal systems, performance related pay, scrutinise, so-called "quality audits", customer feedback mechanisms, comparative tables of performance indicators, customer charters, and quality standards' (Hoggett 1996:20). Using these techniques in the public sector has encouraged performance management systems including

audit systems. Performance management as a means of organising relative effectiveness, spurring improvements, and making resource allocation decisions has been part of public service delivery procedures since the NPM movement became embedded in the public sector (Cohen and Eimicke, 1998). The accounting developments in the NPM have resulted in increased 'accounting visibility being beneficial and accounting invisibility being deleterious'. It means that the quantitative aspects of the accounting should be used with the caution that no data are perfect, and invisible meanings can be given to insignificant statistical variation. NPM, that 'most striking international trend', has promoted a market-based organisational culture in the public sector since the 1970s (Poister and Streib, 1999).

Reviewing the impact of New Public Management in the social sector

New Public Management as an international movement has spread from OECD countries to developing countries and from simple methods to developed methods. Indeed, NPM based on business methods is ubiquitous in the public sector (Dunleavy and Hood, 1994; Hood and Jackson, 1991). The culture based on 'privatisation and quasi-privatisation', 'automation' and the 'international agenda' aims to improve the efficiency and quality of service delivery in the public sector (Hood, 1991:3-4). This NPM trend has influenced the social sector, but the impacts vary by type of services and country. Since the 1980s, the social services were substantially affected by NPM in some ways, such as 'policing by objectives', 'management planning with funding linked to performance', 'customer-focused culture' and 'performance management systems with national performance indicators' (Mullins and Murie, 2006; Butterfield and Edwards and Woodall, 2004: 399). For example, Boyne and Walker (1999) assessed the influence of the impact of NPM on social housing in the UK – promoting competition, providing performance information through performance measurement systems,

and reducing organisational size. The further detail of the impact of NPM was studied by Mullins and Murie (2006), who suggested nine main features of the impact of NPM on social housing – breaking monopolies, reducing organisational scale, introducing competitive markets, empowering consumers, managerialism, public service orientation, transforming organisational cultures, modernisation and performance measurement. New Public Management has both potentially positive and negative effects. The positive factors of NPM are the benefits to be derived from liberal market principles in improving the quality of public service delivery. On the other hand, NPM may bring several weaknesses (Boyne, Day and Walker, 2002). NPM has been criticised by hierarchists for putting the public sector out of control through privatisation, over-contracting-out and weakened accountability. The critiques are controversial. Criticising the weaknesses of NPM can provide possible remedies for particular vulnerabilities of NPM. It is quite difficult to judge whether or not NPM is a useful tool to improve the quality of social service delivery. NPM has accommodated public reforms over a long period. In performance measurement reform, for instance, the government tried to reduce central power by making regulatory bodies, such as the Housing Corporation and the Audit Commission as independent organisations, but this was all done within a context of a national agenda, perspective and policy which gave the government much more direct or indirect control over the performance measurement system (Richards and Smith, 2002; Dorey, 1995). In this sense, this part of the chapter will attempt to identify how Thatcherism influenced the NPM reforms and to search for any correlation between them and other national policies. At the same time, it is also possible to look at how the NPM movement has affected a whole range of government policies. It is quite difficult to define the blur of political determinants, but government policy has had a significant impact on performance management in the social sector. There is a great deal of uncertainty and questions surrounding these issues. There is, however, a general recognition amongst

academics that mainstream political elements in performance management involve assumptions about the relationship between central government and other civil service organisations (Pollitt, 1990; Farnham and Horton, 1999; Hughes, 1998; Massey, 1999), for example, in providing ideological foundations for the criticism of public sector spending; and in bringing some public reforms through market-driven policies (Box, 2001; Dunleavy, 1991; Leach and Percy-Smith, 2001). Free market ideas, values and practices have had a significant impact on national policy in Britain.

2.4.2 Government approaches

Since the 1980s, British government has reflected new political thinking or new management thinking, through the so-called New Right or Neo-Conservatism, and the New Public Management. The Thatcher government established in 1979 gave more emphasis to the managerial way of reducing public expenditure, and improving the performance of public-funded services. Breaking with the post-World War Two Keynesian consensus, the Thatcher government set out to control the rate of monetary growth to attack inflation and solve economic problems. The government attempted to reduce public spending in both the public and the non-government sectors. The view of the Thatcher government was that bureaucrats were partly responsible for and had a vested interest in the growth of public spending. The government also saw local authorities as a large part of an overgrown 'nanny state'. The prevailing political and management thinking of the new Conservative government in the 1980s emphasised competition and a role for the private sector in the delivery of public services (Gamble 1985: 192-7; Keegan, 1985: 138; Butcher, 1990: 106-110).

Public policy

The objective of this part is not to explore the content of individual policies, but to provide an overview of the ideas that appear to have influenced the thinking behind the NPM movement. So far the emphasis in this chapter has been on the academic literature of performance management, which is often far removed from recent and current political debate. Since 1979, the environment of British politics has undergone substantial change. The Thatcher government was committed to restructuring the role of the state, and introducing managerial strategies into the social sector. The impact of public policy has affected the nature of the social sector in Britain and the dominance of a particular governmental perspective on public policy has had a significant impact on the development of performance management.

What is public policy? A 'policy' is regarded as a plan or formal decision of action. It can be implemented by government and other organisations to reach their particular goals. Policy is a complex phenomenon consisting of decisions created by these actors. The word 'public policy' is a more specific term used to formulate a formal decision or a plan of government action. Dye (1978:3) notes that the meaning of public policy as a process can be understood 'whatever governments choose to do or not to do. Policy involves, then, conscious choice that leads to deliberate action by government – the passage of law, the spending of money, an official speech, or some other observable act or inaction'.

Mainstream public policies involve assumptions about the relationship between the state and the market, and between the individual and government. The dominance of a particular governmental perspective can have a significant impact on the development of performance management in social sector reforms. For instance, the British Conservative government

reflected their ideological commitment to the free market under the label of 'Thatcherism' or the 'New Right'.   Social organisations and their spending were seen as an obvious target to reduce public expenditure.   One criticism of market-inspired reforms is that they merely describe the various actors involved in a different role for traditional public, private and non-profit organisations in the delivery of social services, without explaining the direction or strength of various influences.   The influence of a wide range of public polices involved in the introduction of NPM has assumed a dispersal of power not only through diversification of social service deliverers, but also through overlapping and competing agencies.   Increased fragmentation and competition has led to complexity and high cost in the social sector, the opposite of what was claimed for the introduction of NPM.

Neo-Conservatism

In the 1980s, the British government wanted to reform the management of the public sector from traditional administration to a performance management approach.   Economic conditions in the 1970s had worsened compared with the 1960s.   Inflation increased remarkably, unemployment was high and the pound had declined in value (Wright, 1980: 110).   One object of reform was seen to be the traditional Keynesian welfare paradigm in which government provided public goods for the poor and disadvantaged, requiring a high level of public expenditure as a necessary condition of being a welfare state.   The Keynesian paradigm which had pervaded the British public sector was required to change (Pliatzky, 1982: 178).   Hayek and Friedman (1988: 85-88) said that public spending based on central planning is dangerous both politically and economically; that it   stunts individual liberty, the role of Parliament and the rule of law; and is economically inefficient because central planning brings problems, such as monopoly and high transaction costs.   In 1974, Margaret

Thatcher when President of the Institute of Economic Affairs introduced Hayek and Friedman's ideas. Thatcher attempted to apply the arguments of the 'New Right' in the academic arena into the political arena. The main argument was that government work would be more effective if the ideas of private sector management were applied to the social and public sector (Keegan, 1985: 80-81; Young, 1989: 102). The term 'New Right' is complex. Jackson and Carter noted that there is no 'single monetarist model, and many monetarists object to the broadening of the term to include libertarian ideals' (Jackson and Carter, 1985: 27). Rhodes (1988: 20-30) points out that the central tenets of the New Right are divided into three: economics (monetarism), politics (liberalism) and bureaucracy (public choice) and all are significant arenas of the New Right. In terms of economics, Heald (1983: 35-36) notes that the New Right is associated with eight assumptions, which include: the 'use of the monetary stock as the proper target of monetary policy'; rejection of any trade-offs between unemployment and inflation; 'a relatively greater concern about inflation than about unemployment compared to other economists'; and 'dislike of government intervention'. The economic ideas of the New Right are based on the view that public expenditure should be reduced. And the political argument is about the association between markets and freedom. The prevailing emphasis on an ideal model of government is the 'minimal state' as an essential element for freedom. The role of the market is important to secure freedom from a 'threatening' government.

> If the state is a threat to negative liberty, then markets positively enhance such freedoms which are inextricably linked to the exercise of individual choice within markets. Freedom exists whenever individuals may, unhindered by the state, exploit whatever market opportunities lay open to them (Heald, 1983: 73; Rhodes, 1988: 22).

In the view of the New Right, privatisation is one of the modest implications to curtail public expenditure, the size of public bureaucracies and the power of trade unions. The New Right view is that allocation of public resources through the market is much more effective than bureaucratic allocation but also the bureaucratic problem of oversupply caused by self-interested and rational actors is solved by competitive bidding between public service providers (Rowley, 1979: 114-117).

2.4.3 Economic approaches

Market principles

Government can learn from business to develop solutions to specific management problems, even though the public sector is contextually different from the private sector. But making government 'businesslike' is not an answer to all public management problems. Government has to deal with many issues which the private sector cannot handle. Moreover, business ideas in themselves cannot secure the 3Es (Economy, Efficiency and Effectiveness). Business ideas may be inappropriate in certain political and societal environments, for example some developing countries, or places where there is a cultural aversion to bureaucratic rules. Business methods can be useful to the public sector, but only when government has developed the complex management frameworks that are necessary (Barzelay, 2000: 1-4). In contrast businesses can contribute to improving the flexibility and capacity to respond to rapid organisational change. Government could use market approaches to improve the quality of public services. For instance, the Thatcher government employed professional managers from the private sector as consultants in the belief they would help to make the public sector more efficient. This led to the adoption of competitive approaches in many parts of the public sector, a movement followed in most

advanced countries, and marked a shift from reliance on hierarchical processes to reliance on the market approach. It influenced the basic boundaries between public and private sectors. Market approaches to public management are associated with privatisation, public choice economics and competition. The Thatcher government believed that adopting market ideas would secure a higher standard of service at a more competitive cost. The government also encouraged public service organisations to keep costs down and standards of service high. Public expenditure would be cut to accommodate the development of performance management (Metcalfe and Richards, 1993:157; Rayner, 1983: 3). Market approaches were also linked with several different policy agendas, regulation and the adoption of private management ideas in public management. Unsurprisingly, the effects of the so-called 'managerialism', 'New Right' and 'Thatcherism' have no real limits in their influence on public policy and the impacts of such movements upon the nature of public service provision extend well beyond the modes of traditional administration. Metcalfe and Richards reflect the complexities of public management that exist between traditional administration and business management:

Government must develop its own approach and use private sector practice in a selective and discriminating way, guided by a concept of public management. Governments in most advanced countries are in process of reconsidering basic assumptions about the boundaries between public and private sectors, the scope of regulation and the opportunities for deregulation (Metcalfe and Richards, 1993: 156).

New public sector management does not mean just bringing market principles to the public sector. Private sector ideas would be adopted to deal with public sector problems. Private sector principles were deemed an essential foundation for public management. For

instance, in the 1980s, the British government tried to use intense pressure to introduce management reforms into public sector organisations.

> We do not seek to make distinctions between a productive private sector and a non-productive public sector. The sectors just cannot be characterised in this way. So, as we are concerned about the state of the economy and the efficiency and effectiveness of private organisations, then we must be interested in the efficiency, responsiveness and effectiveness of public sector organisations (Dawkins, 1985: 60)

Performance management and measurement are both key features of the public sector reforms that date from the 1980s. Performance management, associated with business factors and principles, was intended to attack Keynesian principles, which according to the Thatcher government, were central to explaining why government had grown. Decentralisation and privatisation are other examples. And all of these aspects of NPM affected the relationship between public-funded organisations and their regulating and monitoring bodies. Performance management, driven by national government and embraced by its agencies, has influenced the perspective of public-funded organisations on the process of public service delivery.

Neo Managerialism

The economic movement in the 1980s in developed countries influenced the nature of government from 'welfare state construction' to 'technical politics'. There were many programmes to reform public sector management under economic pressures (Rouban, 1997: 148; Pollitt and Bouckaert; 2000: 136-137). During the 1960s the growth in public expenditure and resource allocation put pressure on the macro-economic condition of

governments, and on the international economic environment, exemplified by the 1970s oil crisis and its aftermath. The Conservative government introduced the ideas of new managerialism in an effort to improve the quality and performance of the social sector. The ideas were based on consumerism and the devolution of responsibility in the levels of service delivery and decision making (McTavish, 2005: 141-142). In sum, the drive for new managerialism in the social sector was an international movement, and the influence of the political shift based on management theories has been enormous in performance management reforms (Pollitt and Bouckaert, 2000: 20). The concept of new managerialism is perceived as 'a better use of resources and the search for value for money'. It is a method, skill or technique deployed in government to make the social sector more like a business (Metcalfe and Richards, 1993: 173-175). The idea is that consumers are more likely to be satisfied because the management reforms have been market driven, not traditionally driven. Horton and Farnham (1999: 42-43) say that the new managerialism had three distinctive functions in the social services. Firstly, the government intended to reduce public expenditure on staff, particularly the 'manpower budget'. Secondly, the managerial responsibilities were devolved to line managers through a managerial system. Thirdly, there were performance measuring systems for a rational management of the social sector. The new managerialism applied three Es (economy, efficiency and effectiveness) into the social sector to secure the performance of public-funded organisations. The government encouraged this by using benchmarking against the performance of the private sector.

New managerialism has both positive impacts and potential disadvantages. Increasing competition in the social sector can be seen as a means of making the public sector more efficient by bringing external ideas and approaches from the private sector to tackling social needs and objectives in a more effective way. On the other hand, government has a

responsibility to provide social services without business ethos. It means that government has to deal with difficult issues which private organisations cannot do, such as considering equity and the poor (Rayner, 1983: 3-5). The character of the new managerialism in the social sector cannot be the same as in the private sector. However, the new managerialism, with its market-driven principles, has had a great influence on the social sector.

2.5 Performance measurement in performance management

One of the key features in performance management over the past 30 years has been the growth of performance measurement. The relationship between regulatory and regulated organisations in performance measurement can be discussed in terms of various theories relevant to performance management.

2.5.1 Definition of performance measurement

In some situations, it could be assumed that the term 'performance measurement' is used to evaluate the performance of individuals (Berman and Wang, 2000: 409). 'Performance' has a number of meanings relating, for example, to inputs (i.e. resources used), outputs (i.e. services produced) and outcomes. 'Performance measurement' is an informative methodology of what to measure [1] and how to measure it (Roger, 1990: 14-15). Performance measurement became important because government wanted to see whether its objectives were being achieved and people's needs were being met. The capacity of government for performance measurement is a useful diagnostic strategy to identify areas of organisational deficiency. Measuring the performance of public programmes was clearly

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[1] Performance measurement is a complex and multi-faced concept and a tool to describe the situation of organisations. Performance measurement is related to the availability of appropriate data about the quantity of service delivery and the resources used. (Roger,1990)

part of the results-based management movement for the budgeting process in the 1960s and the evaluation programme in the 1970s (Poister and Streib, 1999: 325). In the 1990s, performance measurement became a 'new' scientific management approach as part of social agendas. Hatry (1999) identified the programme logic of performance measurement as follows.

Figure 2-4   Performance Measures and Programme Logic
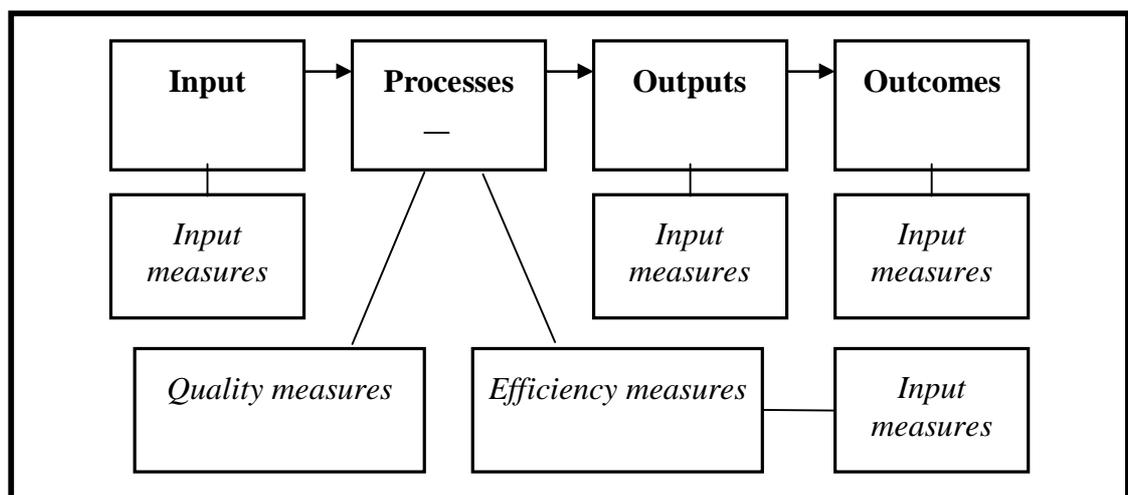
Source: Hatry, 1999

In Figure 2-4, input measures refer to the *resources* the organisation is using, and how much resources organisations can commit to the programme (e.g., financial, staff, capital, and information technology). Output refers to the direct *products* of the programmes or activities being implemented. In other words, how many customers are served efficiently with the services or products provided? Quality measures are those that assess the extent to which customers are *satisfied* with the public services provided. Outcome measures relate to the *changes and benefits* that result from programmes. Efficiency measures are those that evaluate the amount of *output* (or outcomes) *in relation to inputs*, such as cost or time (Hatry, 1999).

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It is widely believed that performance measurement, with its focus on quality and improvement, has helped improve the performance and credibility of public-funded programmes. For example, the United States Office of Management and Budget created a number of agencies to develop suitable performance indicators and common standards that could be applied to many public organisations in the USA. All levels of organisations were encouraged to report in terms of both service quality and financial data (Wholey and Hatry, 1992: 604-608). However, some difficulties were encountered; such as how to measure the quality of social services; which level or result would be seen as acceptable; and what action should be taken where results were not acceptable. Performance measurement will never be perfect, but it has been suggested that governments can minimise the possibility of manipulation or other error with more acceptable performance indicators. Measurement, in fact, has become an important question in performance management (Bhen, 2003; PBMSIG, 2001).

2.5.2 The importance of performance measurement

To explain the importance of performance management, David et al (2001) argue that performance measurement has been the barometer of performance management. It has been described as a scorecard that records information useful for improving the quality of public-funded organisations and identifying whether they are winning or losing. Considering performance management systems for providing information, Kouzmin et al (1999, 122-123) argue that the development of performance management systems in a performance-based culture could be useful to compare with similar organisations. More specifically, measurement can let people know not only how much money public agencies spend, but also

how much work they do and how well or efficiently they do it.   Moreover, the information from performance measurement is needed for accountability, including accountability to elected representatives.   Thus, performance-based measurement can help to improve accountability between the public and public-funded bodies and improve the quality of the policy making and decision making processes.

2.5.3 Performance measurement systems in Britain

This part addresses the historical background of performance measurement systems in Britain. In particular, it refers to a succession of policies used by the British government with the aim of improving performance, for example, Compulsory Competitive Tendering (CCT), Best Value, and Comprehensive Performance Assessment (CPA).   Performance measurement systems have developed over the past 25 years and have become more complex over time. At first, they were tools for monitoring and evaluating financial performance but then started to measure more intangible aspects of performance.   Their use as a management tool is associated with various influences such as NPM, increasing customer demands, and performance management reform.   Performance measurement mechanisms are considered to have made significant contributions to facets of performance including quality and processes of continuous improvement (Carlucci, Marr and Schiuma, 2004).   The first performance measurement system was introduced in the beginning of the 1980s.   It was called Compulsory Competitive Tendering (CCT).   It was designed as tool for increasing competition and evaluating economic and financial productivity in organisations.   The management tools that were developed then started to consider additional facets of performance such as quality and value, and the satisfaction of users as customers.   Under the Labour government elected in 1997, CCT was replaced by the Best Value scheme.   As its

name suggests, it was concerned with 'value' rather than 'cost' and thus claimed to offer a more balanced view of performance, incorporating both financial and less tangible indicators. A more recent performance measurement framework is the Comprehensive Performance Assessment (CPA), which was introduced for local councils in 2002 and is administered by the Audit Commission. CPA looks at the performance of individual service areas within local government but also aims to make an overall assessment in terms of a 'single judgement' about the performance of a local body. In this sense it follows the Best Value approach in seeking to take a wider view of performance than in the more financially driven approach of CCT.

Best Value

The Labour government introduced Best Value in 1997. Although it was seen as a 'replacement' for CCT, it may be more accurate to describe the change as an evolution. The Best Value regime retained many of the elements of previous reforms and the CCT framework; and the objectives of both systems are similar in seeking to increase efficiency, obtain value for money and improve the quality of public service (Leach & Percy-Smith, 2001: 174). The Best Value framework also relies on market mechanisms to secure improvements in the provision of public services. A key feature in the two systems is to measure the performance of public services through producing numerical indicators (Nelson and Henderson, 2005: 249). Best Value, however, is broader in scope than CCT.

> One of the main differences between CCT regulations and the Best Value regime is that the former applied only to defined activities (mostly blue collar services) whereas the duty of Best Value is extended to all local authority activities. Best Value places on promoting partnership, particularly joint ventures between local

authorities and the private sector (Martin, 2000: 212).

The Best Value framework has been based on broad principles and process rather than detailed regulations. The Best Value framework is quite complex. It does not have a uniform approach and is implemented in different ways by different local authorities and services, even in the same councils (Martin, 2000: 223-224). The introduction of Best Value is explicitly associated with performance management principles. These principles involve several characteristics such as accountability, effectiveness and quality of local service. In particular, national standards are important elements to determine local targets and to compare performance (Vincent-Jones, 1999: 273-274). Central government provides the statutory framework for Best Value (Figure 2.5). It is intended to help local authorities set up the local performance plan locally. The setting of corporate objectives between central and local government is an important factor. In addition, the use of performance indicators is central not only to measure an organisation's performance, but also to compare it with other organisations (Geddes, 1999: 16-17). Performance reviews are important in improving services, satisfying client groups and encouraging bench-marking within individual organisations, across organisations and across sectors (LGA, 1999: 7-8). The Best Value regime is intended to encourage local authorities to provide 'best value' services through reviewing the effectiveness of what they do (Corrigan et al., 1999:14). The national performance framework for Best Value reflects the four principles of public service reform: national standards, devolution, flexibility and choice and contestability. According to DETR, national standards help local people to see how local services perform. Central government gives 'excellent' local councils more freedom. Having regard to a combination of flexibility, choice and contestability, DETR said that central government is able to reform the public sector to secure continuous improvement in both quality and finance (DETR,

1999a: 11-14).   Central government has attempted to use the framework to ensure that local authorities comply with the proposed national definition of a basic framework of standards and key performance indicators (Vincent-Jones, 1999: 277).   Best Value reviews are central to the concept of the Best Value performance management framework.   The Best Value reviews aim to set a programme to analyse frameworks, problems and solutions for improving performance (David & Wright, 2004: 424).   Briefly, Best Value was designed to 'secure continuous improvement in the ways its functions are exercised having regard to a combination of economy, efficiency, and effectiveness' (DETR, 1999b: 3; Entwistle & Laffin, 2005: 207)[2].

The Best Value performance management framework of the Labour government is one of the more important policies to improve the quality of local authority service provision.   Boyne et al (2001: 55) conclude the main positive result is that Best Value has enhanced political and managerial accountabilities; and that Best Value is more positive and suitable for local authorities than CCT (Boyne et al, 2001: 56-57).   However, in important critical reviews of the Best Value literature, performance measurement had already been identified as causing problems under the CCT regime.   In particular, it is arguable that the problems of measurement using performance indicators have caused confusion.   A further critical point is that it is also difficult to incorporate public and economic factors into performance measurement indicators (Boyne, 2002; Harris & Vincent-Jones, 2001; Nelson & Henderson, 2005: 239).

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[2] The basic theoretical background is that 'the goals of policy as laid out in white papers and statute should not be taken at face value.   Policy could only really be understood from a governance perspective.   Policy was framed with a view to winning and holding on to office by achieving a minimal level of governing competence' (Bulpitt, 1995: 520).

Figure 2-5   Best Value Performance Management Frameworks

National Focus		Local Focus
'General health' Performance Indicators (PIs)	Establish authority-wide objectives and performance measures	Local aspiration
Service or cross-service PIs & some national targets	Agree programme of fundamental performance reviews and set out in local performance plan	Prioritise weakest areas-5 year cycle for all services
Service or cross-service PIs	Undertake fundamental performance reviews of selected areas of expenditure	Challenge purpose Compare performance Consult community Compete with others
Year-on-year improvement	Set and publish performance and efficiency targets in local performance plan	Follow-up action · Report on achievement of targets in local performance plan · Address shortcomings · Deal with failure
Test of robustness for local people and central government	Independent audit/inspection and certification	
Last resort powers to protect the public	Areas requiring intervention referred to Secretary of State	

Source: DETR (1999a: 13).

2.6 Overview of the purposes of performance measurement

Many studies have criticised the measurability of public sector performance. Is it possible to measure government policy making, which has more elusive

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and ambiguous objectives? Performance measurement tends to demonstrate what is going on in terms of outputs or outcomes, but not why or how it occurred, although it does generate questions (Yang and Holzer, 2006: 120).

There are many reasons why most organisations in both the social and private sectors intend to measure their performance. The main purpose of the performance measurement system is to evaluate the final outcomes resulting from an organisation's activities.

Table 2-1   Characteristics of Performance Measures for different purposes

Purpose	Purpose
Evaluate	Outcomes, combined with inputs and with the effects of exogenous factors
Control	Inputs that can be regulated
Budget	Efficiency measures (specifically outcomes or outputs divided by inputs)
Motivate	Almost-real-time outputs compared with production targets
Promote	Easily understood aspects of performance about which citizens really care
Celebrate	Periodic and significant performance targets that, when achieved, provide people with a real sense of personal and collective accomplishment
Learn	Disaggregated data that can reveal deviancies from the expected
Improve	Inside-the-black-box relationships that connect changes in operations to changes in outputs and outcomes

Source: Bhen, 2003: 593

As shown in Table 2-1, performance managers have to build their performance measurement systems according to the purposes they want to achieve. Indicators appropriate for one purpose may not be suitable for another. Bhen (2003) points out that measuring outcomes is much better than measuring inputs, processes and outputs, but to focus on outcomes alone is not enough to make an efficient performance measurement system. From inputs to

outcomes, an integrated performance measurement system can help governments better evaluate their interactions among services. Behn (2003) points out that most private organisations measure their performance for the end and the beginning of a process at the same time. The social sector is different from the business sector, but the system of performance measurement has become important in the process of social service delivery. The reason why it is an essential part of the process is to provide reliable and valid information on performance, even though it is hard to measure and to use because the information may not be appropriate for a particular area in the public sector. Behn offers eight purposes that performance managers have for measuring performance, as shown in Table 2.1 above.

The purpose of *evaluation* in performance measurement is for organisations to know how well they are performing toward their objectives. Ingraham and Kneedler (2000: 238) note that 'the central concern of the principal-agent theory is how principals can *control* the behaviour of their agents.'[3] A performance measurement system enables principals see whether agents have implemented their objectives and spent budgets in effective ways. Performance measurement can help organisations to *budget*, including performance-based budgeting, and results-oriented budgeting. Most organisations establish their own goals to improve performance and performance management data can help to *motivate* staff towards the achievement of organisational goals. Performance data can also be used to *promote* to the public and others that the organisation is doing well. This can enhance public trust and accountability. *Celebration* can promote accomplishments and achievements, as can *learning* and *improvement*. Other sub-purposes of the eight basic purposes for performance

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[3] Principal-agent theory is grounded in a business management area but it can apply to the social sector. There are some conditional points between principal-agent relationships, such as incomplete information, different interests between them and principal-agent incentive problems (Ingraham and Kneedler, 2000).

measurement include: planning, decision-making, modifying programmes, setting performance targets, recognising good performance, comparing performance, informing stakeholders, performance contracting, and promoting accountability.

Bhen (2000, 588-592) writes that 'performance measures can reveal not only whether an agency is performing well or poorly, but also why: what is contributing to the agency's excellent, fair, or poor performance?' Measuring performance should not become a goal in itself for a social organisation. It is a means to an end: a tool to make good performance, or 'continuous improvement'. According to the National Academy of Public Administration (NAPA 1994: 22) 'performance data should be part of a continuous feedback loop that is used to report on programme value and accomplishment and identify areas where performance is weak so that steps can be taken to promote improvements'. The fundamental purposes of performance measurement are to improve the performance and the quality of services.

2.7 Recognising the limits of performance measurement

In this section the existing literature on the problems and limits of performance measurement will be addressed with a brief critical evaluation of measurement strategies and approaches to the evaluated phenomena. Can it be true that key performance indicators such as customer satisfaction and financial results reflect the performance of a public sector organisation adequately?. Given the positive effects claimed for performance measurement, why is it so often criticised in the social sector? Some problems are technical but others are inherent in measuring social services. In this thesis, the critical issue for performance measurement can be partially explained by technical and organisational barriers.

2.7.1 Technical barriers

To a certain extent, performance measurement has provided useful tools for measuring the social service delivery that made social organisations more efficient, tenant-oriented and more focused on both social and managerial performance. On the other hand, it has had some negative outcomes resulting from the emphasis on managerial techniques. For example, housing association outputs and outcomes in both managerial and social aspects have limitations on 'precise and accurate measurement'. In particular, measuring outcomes (focusing on social performance) is quite difficult because it has involved various internal and external factors. Of course, performance measurement can provide considerable evidence for reducing uncertainty in decision-making processes, but it may also waste valuable time and resources in terms of opportunity cost.

There is a growing awareness in performance literature that quantitative indicators, in particular financial measures, have limitations for planning and control purposes. Social organisations need to analyse the wider perspectives of comprehensive performance for decision making. Therefore, one of the difficulties when setting up a performance system is selecting appropriate indicators that can accurately measure the performance of a given task. It is a reason why most performance measures are related to quantitative aspects. They cannot be flexible as they cannot reflect the real achievement of the task (Ghalayani and Noble, 1996). Moreover, 'performance measurement indicators and measures are chosen on the basis of data being available, not necessarily because it is reflecting exactly what should be used as a performance indicator. Even if theoretically appropriate indicators, which truly capture the task and its complexity, were chosen, the problems do not disappear'

(Bobinsky, 2005: 6-7). In order to bring about helpful performance information, performance measurement has to have more effective indicators of both quantitative and qualitative performance. Does this mean it should involve both social and managerial aspects? This has always been a point of criticism in the social sector, where performance measurement, as practised, is said to be less about qualitative aspects and more about financial aspects. It is about increasing 'what works' in the social sector in terms of 'input'. Thus, measurement focuses on quantitative performance that is easily measureable in terms of 'input', rather than 'output' or 'outcomes'. On the other hand, qualitative performance, though more difficult to measure, is certainly important in the social sector, especially in terms of 'outcomes'. Much more needs to be done to develop this aspect of performance measurement.

2.7.2 Organisational barriers

Performance measurement is not neutral. There are many significant influences on the process such as different objectives in allocating resources, enhancing the legitimacy of activities, and monitoring whole processes. Performance measurement is a useful tool to provide evidence for reducing uncertainty in decision-making processes, but there are opportunity costs in the time and resources needed to establish and maintain internal systems and to respond to the requirements of regulators, inspectors and others. Performance measurement may burden social organisations and their staff with increasing 'red-tape', such as preparing documents, compiling statistics and increasing bureaucracy. Performance measurement can lead also to manipulation of data, and gaming by service providers (Bird et al., 2005: 19). Lawler (1976) points out that performance measurement can have a negative effect on staff, such as rigid bureaucratic behaviour, resistance to control and production of

false data. Publicly-funded organisations may also have negative perceptions of the influence of government measurement, for example where activities may be distorted in response to performance indicators.

2.8 Towards a comprehensive system of performance measurement

There are some limitations to performance measurement as mentioned above, but also some authors propose solutions. Ghalayani and Noble (1996) and Neely et al. (1997) point out the need to design more comprehensive indicators that can be an improvement on old approaches, with their emphasis on financial indicators, costs and outputs. They point out that performance indicators are short-sighted as the measures refer to the short term and may not necessarily bring about long-term benefits. To solve this problem, Perrin (1998) suggests that performance measurement must be designed in a way that involves both qualitative and quantitative aspects to help support the strategic direction of a public-funded organisation. For instance, Kaplan and Norton (2002) suggest a new approach to the design of performance measurement systems, the so-called Balanced Scorecard. It combines financial indicators (cost per task) and non-financial ones (customer satisfaction). Moreover, citizen participation and performance measurement have to go together. It means that a feasible solution for a comprehensive performance measurement system is to involve citizens and their views in the evaluation process (Epstein et al, 2002).

Performance measurement first became common in private enterprises and, what is more, it is an increasing priority for all governmental organisations in the public and social sector (Pollitt and Bouckaert, 2000: 6). It focuses on resource expenditure, outcome and profits. In public areas, all levels of organisations are required to show what they have achieved and

how much they spent because the money came from the tax-payer.   In this case, 'the concept of performance measurement in the public sector is straightforward: you get what you measure; and can't manage a project unless you measure it' (Performance-Based Management Special Interest Group in the USA, 2001: 3-5).   There are various strategies to measure performance because the methods employed depend on an organisation's purposes and its different users.   Measurement methods must provide *'measures of the productivity, quality, timeliness, effectiveness, and cost effectiveness of agency or program activities'* (Poister and Steib, 1999; Kopczynski and Lombardo, 1999: 124; Wholey and Newcomer, 1989).

Effective performance indicators can help us understand how well organisations are doing. Basically, performance indicators involve not only single-dimensional units such as the number of personnel, money, hours, and the number of errors and reports, but also multi-dimensional units, such as the degree of customer satisfaction, staff satisfaction, and number of waiting hours to get services.   For instance, the performance-Based Management Special Interest Group in the USA (PBMSIG, 2001) says that performance indicators as a tool are able to inform us of significant things about products, services, and the processes of programmes.   They group performance indicators into six categories dealing with: 'Effectiveness, Efficiency, Quality, Timeliness, Productivity, and Safety' (PBMSIG, 2001: 23).

The Productivity Commission of the Austrian Government (2005) notes that performance measurement has to 1) create reasonable indicators of performance; 2) help clarify an organisation's objective and responsibilities; 3) report to the public about government service performance; 4) encourage performance improvement; 5) make organisations integrate with

other organisations and policies.

There are some important issues of determining how to measure performance, what goals and objectives to establish, influential factors to improve, and performance levels to expect in performance measurement (Epstein, 1992: 513-514). Brown and Graham (1999) suggest that performance measurement helps to reduce emotionalism and to encourage organisations to achieve constructive solutions through providing concrete data as useful information. They say it can remind us where we are, and then let us know where we are going, and how to achieve our objectives as a road map (Brown and Graham, 1999). While acknowledging the difficulties of performance measurement, the PBMSIG (2001) says it can be very valuable to organisations and customers; and that major components of performance management should be integrated for effective performance measurement systems. These major components are: 'the strategic plan, key business processes, stakeholder needs, senior management involvement, employee involvement, accountability for measures, a conceptual framework, communication, and a sense of urgency' (ibid: 12).

The Audit Commission (2000: 2-11) offers several key principles on how to create an effective measurement system: 'clarity of purpose; focus; alignment; balance; regular refinement; and robust performance indicators'. These six key principles have been important in building a performance measurement system for increasing accountability and improving performance. First of all, the objective of 'clarifying the purpose' is to help customers who are mainly service users, central-local government and managers at all levels, to understand how and why the information will be used. It is also a means of creating indicators which depend on the users. The principle of 'focus' helps organisations to be clear about priorities in their objectives, when deciding core areas in need of improvement.

Performance measurement needs to be networked with other management strategies. The performance indicators should cover all areas equally, such as financial and non-financial data, time and quality. They should respond to changing circumstances, in order to monitor organisations' performance in the right way. The performance indicators should be checked to make a better system. Organisations should 'build robust performance indicators' so that they will be 'easy to use….be statistically valid, be cost effective to collect, be unambiguous, be attributable, be timely, and be relevant to the aims' (The Audit Commission, 2000: 11).

In addition to the several principles of the Audit Commission, Kravchuk and Schack (1996) point out that performance measurement is a way to identify or suggest systemic problems in organisations and to provide guidelines for processes that may present better outcomes. They mentioned that effective management systems require several design principles: 1) Formulate a clear, coherent mission, strategy, and objectives; 2) Develop an explicit measurement strategy; 3) Involve key users in the design and development phase; 4) Rationalise the programmatic structure as a prelude to measurement; 5) Develop multiple sets of measures for multiple users, as necessary; 6) Consider the customers of programmes and systems throughout the process; 7) Provide each user with sufficient detail for a clear picture of performance; 8) Periodically review and revise the measurement system; 9) Take account of upstream, downstream, and lateral complexities; 10) Avoid excessive aggregation of information (ibid, 357). These requirements are a useful reminder to decision-makers of the difference between the ideal measures and the actual operations.

2.9 Concluding comments

This chapter has explained what performance management is; what it aims to achieve; where

performance management ideas come from; and what factors have contributed to performance management. Performance management seeks to explore and to explain what the public and social sector do well or badly; what governments should do about it; what performance management should achieve; and how to achieve it. The literature has highlighted themes, such as 'making government efficient and keeping government accountable'. This has led to public reforms in the last three decades, often associated with criticism of post-World War Two welfare assumptions. Associated with a spate of Keynesianism critiques in Britain, successive governments from 1979 onwards, driven by a particular economic and political philosophy, attempted to link efficiency and accountability through modes of performance management.

A belief in the superiority of business methods has influenced the public sector in Britain since the late 1970s. The Thatcher government introduced the ideas of the New Right in its policies towards the public sector. It eulogised the benefits to be gained from business ideas in making public sector management more efficient. The new managerialism aimed to systematise performance management, through the introduction of market principles and performance measurement, and the formation of 'next steps' agencies. The emphasis in those reforms was on restructuring and redefining the roles and responsibilities of the public sector. The aim was to achieve efficiency through privatisation, reshaping of social services and the introduction of performance-based management into traditional administration. These developments influenced and were influenced by the worldwide trend towards NPM, with its emphasis on performance-based public policies and processes, improving services, cutting costs and reducing public expenditure.

The focus underpinning this chapter is on performance measurement, which has become

established as a key instrument in the performance management culture, especially in the evolution from CCT to Best Value and CPA. Performance measurement frameworks in NPM were about reforming various areas of traditional public administration to achieve better 'value for money'. A central theme in NPM was how public sector organisations are managed, and performance measurement was essential to this.

Performance measurement is a useful diagnostic strategy to identify areas of organisational deficiency. It can change perceptions of how a given task should be performed, and how it can be performed well. It is also about the behaviour of players using information to maximise their own benefits in self-interested ways and this is a theme that will looked at in Chapter 5. First, however, the next chapter discusses the development of housing policy and housing associations in England.

CHAPTER 3 HOUSING POLICY AND HOUSING ASSOCIATIONS

3.1 Introduction

Having outlined key issues of 'performance management and measurement' in the previous chapter, this chapter examines the development of housing policy and housing associations in England. The chapter has two main sections. The first explores briefly the housing policy changes that have been influenced by the economic and political purposes of central government, and by social sector reform ideas and ideologies (King, 2001). The second introduces and explains changes that have taken place in the housing association sector in England. The period covered is from the 1970s to the mid-2000s, the main phases of which were the 1970s, the period of Conservative government from mid-1979 to mid-1997, and of Labour government from mid-1997 onwards.

The chapter provides the housing policy context for the thesis. It is followed by Chapter 4 which looks at the regulatory framework for housing associations in England that has developed since the 1970s.

3.2 Housing policy in England

Governments in Britain have been involved in housing for more than one hundred and fifty years and the provision of public sector housing grew from the 1920s until the early 1980s. By 1970, about half the households in Britain were owner-occupiers, 30 per cent rented from public authorities and 20 per cent were tenants of private landlords. At this time, very few people were tenants of housing associations. Within the welfare state, however, housing

differed from other services such as education and health, because of the large size of the private sector. Throughout the twentieth century, home ownership grew in importance and was encouraged by successive governments. In fact, since 1979, the rate of home ownership has increased still further, so that owner-occupation now accounts for over 70 per cent of housing, while the public sector (or 'social housing') has decreased to about 18 per cent, of which roughly half is rented from housing associations. These changes have been strongly influenced by government policies which have encouraged home ownership, partly through the privatisation of council housing, including the transfer of council housing to the housing association sector. At the same time, investment in new council housing was reduced and eventually eliminated altogether; while the growth of new private rented housing was also encouraged, especially in areas of urban regeneration. Government policies have had a strong influence on these trends (Balchin and Rhoden, 2002).

This section outlines the changes of housing policy in terms of years divided into three periods, 1970s, 1979-1997, and from 1997. Many significant changes took place during this time, often requiring legislation (Table 3-1).

3.2.1 In the 1970s

Table 3-1   Principal housing legislation, 1970-77

Year	Legislation
1969	Housing Act: raised level of improvement grants for older housing. Introduced 'General Improvement Areas'.
1971	Housing Act: increased improvement grants in assisted areas.
1972	Housing Finance Act: introduced 'fair rents' for council tenants. Replaced all existing subsidies with a new deficit subsidy system. Housing Revenue accounts now permitted to generate a surplus. Mandatory rent rebate scheme.
1974	Housing Act: introduced 'Housing Action Areas' and expanded the remit of the Housing Corporation.
1974	Rent Act: gave security of tenure to tenants in furnished dwellings.
1975	Housing Rents and Subsidies Act: 'fair rents' abandoned in the council sector. Rebate scheme retained. New interim subsidy arrangements to replace 1972 Act provisions.
1977	Housing (Homeless Persons) Act: placed a duty on local housing authorities to provide accommodation for homeless households and priority needs groups.

Source: Malpass and Murie (1999: 31).

Key housing legislation in the 1970s is set out in Table 3-1. In the Housing Act 1969, the government changed its goal from slum clearance and redevelopment to the improvement of existing, older dwellings. This was partly for economic reasons and it marked the beginning of a decline in council house building programmes. In the Housing Finance Act 1972, the government introduced a new approach to housing subsidies with the introduction of a national rent rebate scheme for council tenants on lower incomes. This marked the beginning of a shift from subsidising building to subsidising housing costs, for those who

needed such support. The Housing Act 1974 was significant for housing associations, which became subject, for the first time, to registration and funding by the Housing Corporation. This also was a major change in the role and responsibilities of the Housing Corporation itself.

Difficult times for the Labour government of 1974-79 led to the publication in 1977 of a Housing Green Paper, which envisaged the further encouragement of home ownership, a policy eagerly followed by the Conservative government of Margaret Thatcher, elected in 1979 (Malpass and Murie, 2002).

3.2.2 From the 1980s to 1997

Table 3-2   Principal housing and related legislation, 1979-97

Year	Legislation
1980	Housing Act and Tenants' Rights, etc Act: introduced 'Right to Buy', tenants' charter, new housing subsidy system and changes to Rent Acts.
1980	Local Government Planning and Land Act: changes to local government finance.
1982	Social Security and Housing Benefits Act: established Housing Benefit system.
1984	Housing and Building Control Act and Tenants' Rights etc Act. Amendment Act: extended and tightened 'Right to Buy'. Housing Defects Act: obligation placed on local authorities in respect of sold defective dwellings.
1985	Housing Act: consolidating Act. Housing Association Act: consolidating Act. Landlord and Tenant Act: consolidating Act.
1986	Building Societies Act: enabled building societies to own and invest in housing directly and to compete with other financial institutions.
1988	Housing Act: deregulation of private renting. New financial arrangements for housing associations Tenants' Choice and Housing Action Trusts introduced.
1989	Local Government and Housing Act: new local authority rent and subsidy systems. Changes to urban renewal policy.
1992	Local Government Act: extended Compulsory Competitive Tendering to housing management, introduced performance measurement.
1993	Leasehold Reform, Housing and Urban Development Act: enabled leaseholders to acquire freehold interest in their property. Rent to mortgage scheme.
1996	Housing Act: new regulatory framework for registered social landlords.
1996	Housing Grants, Construction and Regeneration Act: amendments to improvement and repair grant systems. Abolition of mandatory grants.

Source: Malpass and Murie (1999: 39).

The early 1980s also saw the transfer of some areas of local authority housing to private developers; and after the Housing Act 1988, the process began of large scale 'voluntary' transfer of council housing to housing associations, often established especially for the purpose. This trend continued throughout the 1990s and beyond, and was encouraged by generous financial arrangements which made transfer an attractive option for both local authorities, who could see a liability disappearing from their accounts, and housing associations who were amply compensated for the new responsibilities they were taking on. As Table 3-3 shows, between 1988 and 2005, more than one million dwellings were transferred in Great Britain as a whole. The volume of local stock transfers from 178 English authorities was more than 900,000 homes; and 155 English authorities made whole stock transfers.

Table 3-3   Local authority stock transfers, England, Scotland and Wales, 1988-2005

	Whole stock		Partial transfers	
	Number of local authorities	Dwellings transferred	Number of local authorities	Dwellings transferred
England	155	876,346	23	81,000
Scotland	4	105,000	19	19,000
Wales	1	6,400	3	1,000
Total	160	987,746	45	101,000

Source: Mullins and Murie, 2006: 190

Through this process, supported by government funding and the ready availability of private finance (another change introduced in the Housing Act 1988), housing associations have moved rapidly to become major providers of social housing and the main providers of newly-built social housing. They have become one of the most important players in housing policy.

On the other hand, the role of local authorities changed formally from that of provider to 'enabler' in housing. These trends continued through the transition from Conservative government to Labour government in 1997 and beyond.

3.2.3 Since 1997

Table 3-4   Principal housing legislation, 1997-2005

Year	Legislation
1997	Building Societies Act: amended the Building Societies Act 1986, defining the powers of control of the Building Societies Commission, the accountability of societies to members and the investigation of complaints.
1999	Local Government Act: replaced Compulsory Competitive Tendering with 'Best Value'. Scope of Best Value extended to voluntary sector, including housing associations. Role of Audit Commission extended, with the Housing Corporation providing appropriate advice and assistance.
2000	Housing Green Paper: set direction for a number of housing reforms including option appraisals, 'Arm's-Length Management Organisations and Private Finance Initiative options to meet the Decent Homes Standard, rent restructuring, Housing Benefits reform and Choice-Based Lettings.
2002	Regulatory Reform (Housing Assistance) England and Wales Order: required local authorities to publish private sector renewal strategies. Repealed private sector grants and loans provisions, enabled local authorities to assist housing renewal directly or through third parties such as housing associations and private sector loan finance.
2003	Sustainable Communities Plan: gave higher profile to housing policy and responded to regional disparities. Led to the establishment of Regional Housing Boards, Regional Housing Strategies, additional investment in new homes in the South and the establishment of Housing Market Renewal Areas in parts of the Midlands and the North.
2004	Housing Act: major legislation on provisions for the enforcement of housing standards, the licensing of Houses in Multiple Occupation and selective licensing of other residential accommodation. Required home information packs to be produced by sellers when putting their properties on the market. New provisions in relation to Right to Buy (exceptions and discounts). Amended the Housing Act of 1996 to enable the Housing Corporation to allocate Social Housing Grants to private sector companies.
2005	Sustainable Communities: Homes for All. ODPM Five Year Plan: set out the government's housing priorities in the run-up to the general election. Placed strong emphasis on the promotion of home ownership. Introduced 'Home Buy' equity stakes scheme for housing association tenants and further help for first-time buyers.

Source: Mullins and Murie, 2006:70-71.

Table 3-4 shows the principal housing legislation and other significant policy documents that highlighted housing policies under the Labour government. While continuing with many of the Conservative government's housing policies, the Labour government has sought to give clear direction through a more comprehensive approach to policy. A main focus of housing legislation was on increasing management and regulation: 'managerialism and modernisation have had a strong influence on the ways in which housing policy has been shaped and delivered' (Mullins & Murie, 2006:130). Central government has influenced local housing services through inspection, regulation and the provision of incentives, such as grant. But this has led to a more centralised approach including audits, inspections and performance measurement, often involving the Housing Corporation and the Audit Commission. The role of both organisations in the housing sector has grown since the Local Government Act 1999 which extended Best Value to the voluntary sector, including housing associations.

In many ways, the housing policies of the Labour government from 1997 have followed closely the policies of its Conservative predecessors, especially in the continued encouragement of and support for owner-occupation; and in the encouragement given to local authorities to transfer the ownership and management of their housing to housing associations. 'Local authorities could only secure substantial new investment by transferring their housing stock' (Mullins and Murie, 2006: 68). The Labour government has emphasised, however, the importance of sustainability in housing, especially sustainable communities, and there has been significant investment in policies such as housing market renewal, the New Deal for Communities in older run-down council housing estates, and the promotion of new housing in growth areas, notably in the south and south-east of England. The role of local authorities in the direct provision of housing has continued to decline and since 1998, councils have not

built any new housing for rent.   Their role is described as that of 'enablers' in the housing

market for other agencies and providers, mainly the private sector and housing associations.

In fact local authorities are now often dependent on housing associations in meeting local

housing needs (Mullins and Murie 2006).   As Figure 3-1 shows, the private sector continued

to be the main provider of new housing after the Labour government was elected in 1997.

Figure 3-1   Number of dwellings built in England and Wales, 1997-2004
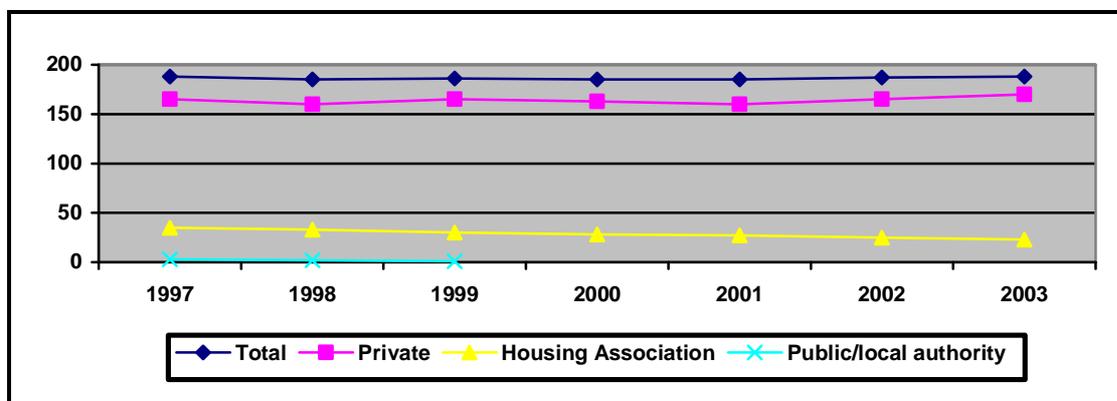
Source: Mullins and Murie, 2006:69

Labour policies have also influenced the growth of housing associations, which have become

much more important as a leading provider of social housing in England (Pawson and

Mullins, 2003).   One view of these changes is that recent housing policy reflects a further

stage in diversification and professionalisation under the Labour government regime,

representing a comprehensive approach driven from the centre and involving a multiplicity of

local housing providers.

3.3 Housing Associations in England

3.3.1 Definition

Housing associations in England are voluntary and independent non-profit organisations. In recent years, they have become remarkably important in providing a wide range of housing, especially for low-income people and minority groups in housing need (Malpass, 2000:16; Balchin & Rhoden, 2002:228; Malpass & Murie, 1999:149; Cope, 1999:26). An important point is that, in addition to rented housing, they also provide opportunities for people on low incomes to become home owners or part-owners. The Housing Associations Act 1985 describes a housing association as:

> A society, body of trustees or company a) which is established for the purpose of, or amongst whose objects or powers are included those of, providing, constructing, improving or managing, or facilitating or encouraging the construction or improvement of, housing accommodation and, b) which do not trade for profit or whose constitution or rules prohibit the issue of capital with interest or dividend exceeding such rate as may be determined by the Treasury, whether with or without distinction between share and loan capital (The Housing Association Act 1985, section 1; Cope, 1999:26).

According to the definition, a housing association does not trade for profit. This does not mean that a housing association cannot make a surplus, but to do so for the sake of profit is not the main aim of a housing association. Surpluses must be reinvested in social housing purposes (Malpass, 2000). Housing associations can be private limited companies or charities, meaning that they must have charitable purposes, for example, providing for people in 'necessitous circumstances'. Housing associations operate under a regulatory framework laid down by Parliament, and operated (until recently) by the Housing Corporation[4]. King (2001) summarises the definition of housing associations as follows:

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[4] The Housing Corporation ceased to exist in 2008. Its functions were transferred to new organisations created by the Housing and Regeneration Act 2008: the Homes and Communities Agency and the Tenant Services Agency.

Table 3-5   Housing associations – public or private?

Housing associations are:

- Charitable trusts or private limited companies owned by shareholders who do not receive dividends;

- Managed by board members who may choose to receive no payment but volunteer their expertise; and

- HA borrowing is classed as private, not public sector, spending.

However, they also:

- Receive government subsidy in the form of capital grants, whilst local authorities receive only permissions to borrow;

- Are controlled by statute and are heavily regulated through the Housing Corporation, which has the ultimate power to disband the association and reassign its assets;

- Have their rent levels determined by government; and

- Own dwellings seen as public assets because they have been [partly] funded with public money

Source: King (2001: 81)

Table 3-5 summarises some of the ways in which the financial and regulatory regime for housing associations in England has influenced the characteristics of housing associations. Their activities are strongly determined by housing policy and the regulatory regime. They look different in their aims, functions, size and organisational structures (Cope, 1990).   As King (2001) notes, housing associations are clearly social landlords, but they bear the risk of failure. In this regard the government does not own housing associations, but aims to control them under government policy.   It is essential to think critically about the definition of housing associations.   'Housing association' is a term and a vehicle useful to government but the distinctive feature of housing associations seems to be that they work on the basis of effective demand rather than need.   This is because government wishes to limit or reduce public expenditure and to replace local authorities' housing services which technically (and in

contrast to housing associations' borrowing on the private market) are a cost to public funds.

3.3.2 Changes affecting housing associations (Historical background)

There are many types of housing association.   They range in size from small to very large. Housing associations emerged in the 19th century as voluntary, philanthropic bodies, which aimed to meet the housing needs of the poor.   For example, the Guinness Trust and Shaftesbury Housing were charities for historical reasons (Reeves, 1996).   They appeared as part of the growth in church-based and charitable social organisations, in response to the bad housing and public health conditions of the time.   The philanthropic movement came about because of the Industrial Revolution and there was a period when housing associations were sometimes described as housing's 'third arm' (Cope, 1990).   During the 1960s, the voluntary housing movement began to develop on much larger scale than in the past.   The Housing Corporation was established in 1964.   The government supported housing associations by giving the Housing Corporation powers to provide them with loans.   Ten years' later, under the Housing Act 1974, new grants and subsidies for housing associations were introduced.   In particular the availability of Housing Association Grant (HAG), which essentially enabled associations to develop without risk, encouraged the rapid expansion of their work.   In the 1970s, the role of the Housing Corporation was expanded and it was given more resources.   In the 1980s, the recently elected Conservative government cut funding for both local authorities and housing associations.   For a while, this limited housing associations' development.   They were also threatened by the 'Right to Buy', though this applied mainly to the council sector.   Later in the 1980s, however, the realisation grew that housing associations could have a much more important role to play as alternative providers of what had begun to be termed 'social housing'.   Legislation in 1986 permitting

voluntary housing stock transfers from local authorities was strengthened by a further Act in 1988, which also enabled housing associations to borrow a proportion of their funds on the open market. These measures laid the foundation for a different type and scale of housing association sector: one that offered many opportunities for significant government influence or control (Cope, 1990; Reeves, 1996: 117). Principal legislation affecting housing associations at this time was:

- 1985 Housing Act – Right to Buy

- 1985 Housing Association Act – developed parts of the Housing Act 1974.

- 1986 Housing and Planning Act – voluntary housing stock transfers from local authorities

- 1988 Housing Act – introduced a new financial regime. Housing associations were expected to raise significant amounts of funding on the private market. In return, rent controls were eased.

- 1989 Local Government and Housing Act – amended Right to Buy.

These changes, especially those of the 1986 and 1988 Acts, established a mechanism that was to enable significant transfer of local authority housing to housing associations. The 1988 Act also created a situation in which the inspection and regulation of housing associations was to become much more important, because of the substantial sums that were being borrowed in a much more 'risky' form of financing than the generous, almost risk-free, subsidy schemes of the past.

Stock transfer and private finance have influenced the restructuring of housing associations. Over time, many have expanded their activities and organisational capacities in geographical

and functional areas through merger or group structures. A number of mergers relied exclusively on private finance. Group structures were often influenced by ideas from commercial disciplines, and by the economies of scale that could be achieved by a single management structure and the rationalisation of 'back office functions' (King, 2001). Over the past ten years, large housing associations have become the dominant organisational model. Mullins and Murie (2006:183-183-4) illustrate some of the main changes after 1988 as follows:

Table 3-6   Brief history of English housing associations 1988-2006

Period	Key drivers	Organisational responses
1988 Housing Act; private finance and mainstream role for associations	Major financial institutions lend to associations; Housing Corporation/municipal authorities fund public element of new schemes	Strong associations grow rapidly; competition for development subsidies increases
1990s: privatisation and mixed economy of welfare; 1996 Act re-labels associations and other not-for-profit, organisations as Registered Social Landlords (RSLs)	Funding for housing capital declines after 1992/23; transfer of municipal stock becomes a major source of growth;	Large new associations formed through stock transfers from the municipal sector; new organisational forms begin to emerge: Local Housing Companies and group structures
1997:corporatist partnership develops between state and larger housing groups	Growing emphasis on delivery and efficiency; Investment Partnering and grants for private developers changes investment landscape	Associations involved in wide range of partnerships; 80 'lead investment partners' selected for 2004-06; new relationships with developers emerge

Source: Summarised by Author

Since the 1988 Housing Act, housing associations have been able to develop new housing using mixed funds from the private and the public sector. However, this led to competition

for development subsidies from the Housing Corporation and municipal authorities and the Housing Corporation was able to engender a 'bidding war' in which associations were encouraged to offer a higher proportion of their own funds (both private borrowing and surplus funds) and thus to reduce the percentage of Housing Association Grant required. The dual role of the Housing Corporation as both lender to and regulator of housing associations made it difficult for associations to challenge the Corporation on practices such as this.

Under the Housing Act 1996, housing associations were classed as Registered Social Landlords (RSLs), rather than 'registered housing associations' as defined in the Housing Association Act 1985. RSL was the technical name for a social housing provider registered with the Corporation[5]. Most RSLs were housing associations but the term covered other providers of social housing such as trusts, co-operatives and companies. It had even been envisaged that new organisations with private sector origins might be set up with a view to applying for RSL status. According to the Housing Corporation, RSLs were required to operate to meet the demands of the government and performance standards of their regulators, the Corporation and the Audit Commission (Housing Corporation, 1999: 12). More than 1,500 housing associations were recognised by the Corporation as RSLs. They were managing over 2 million homes (Housing Corporation, 2007c).

Despite their status as voluntary, independent, not-for-profit organisations, housing associations were allowed in 2003 to seek approval from the Housing Corporation to pay fees to the Chair and members of their Board of Management. The sums allowed were not large,

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[5] The term RSL was abolished in the Housing and Regeneration Act 2008. The new term is 'registered provider'.

in comparison with the fees paid to board members of private companies. The principal being established, however, was the treatment of associations as if they were 'businesses', despite their voluntary traditions and social purposes. Many boards chose not to pay themselves and the matter remains contentious in large parts of the housing association world. Another reason for introducing this practice may have been as an incentive to non-traditional potential RSLs. The Corporation was keen to attract new organisations as social housing providers in order to 'drive efficiency, encourage innovation and widen the pool of potential types of providers of social housing' (Housing Corporation, 2004a; Mullins and Murie, 2006: 180). It seems, however, that the policy of widening the range of providers was not very successful.

3.3.3 The role of housing associations

Housing associations are social housing providers, and many are registered with the Housing Corporation. Housing associations are not required to make a profit but equally, they must not make a loss. In this and other respects, they are different from organisations in the private sector. Reeves (1996: 120) notes that housing association activities can be summarised as follows:

- Providing rented accommodation by new-build, renovation or conversion;
- Providing low-cost homes for purchase;
- Buying property for the above purposes;
- Helping people to buy homes for low-cost home ownership;
- Managing the above;
- Managing local authority accommodation, including temporary lettings;
- Managing private rented accommodation;

- Acting as development agents for other associations and co-operatives;

- Providing housing aid and advice;

- Owing and running charity shops;

- And a range of other housing and related activities.

The main role of housing associations is to provide housing for low-income households, by working with the Housing Corporation and local authorities to devise suitable local development programmes. Although housing associations are not public organisations, they have social responsibilities for the social housing sector (Mullins and Murie, 2006). All services provided by housing associations affect local communities in significant ways. Some form an important part of social welfare (for example, providing social housing in a 'provider' role), some are about community development (for example, developing and managing local communities in a 'developer' role), while others reflect a number of central government's objectives related to housing policies, performance, and regulations (for example, delivering services according to a Code of Practice, general policy approaches and regulations, in a 'vehicle' role). Each of these roles is now considered in turn.

Providers of social housing

One of the significant roles for housing associations is traditionally the provision of low-cost housing for rent and for sale. Housing associations are Industrial and Provident Societies and many are registered charities (Cope, 1999: 1-3). The development of the public housing sector in England can trace its roots back to the housing trusts of the mid-nineteenth century (Malpass, 2000: 34). These were created by individual benefactors or endowments as part of charitable activities to provide housing for low income people in need. The housing

problems in the towns were a consequence of the Industrial Revolution. The movement of people from the countryside to the urban area led to the development of the slums. There were many problems, such as intensive overcrowding, communicable disease and the lack of housing. In particular, housing problems forced homeless people, low-income people and the elderly to crowd together, causing other problems in the town, creating a vicious circle. To address these problems, charitable trusts were created by wealthy philanthropists who gave money to set up these organisations through endowments (White, 1980: 24-31). The almshouses provide accommodation to meet the needs of the elderly as a duty of their religion[6]. They are legally and administratively different from other providers of housing in the public housing sector. Essentially, the aim of almshouses is to provide health care and housing services to support the indigent and elderly as part of Christian duty (Cope, 1999: 7; http://www.almshouses.org). The charitable housing movement was helpful in improving the quality of living conditions for the indigent.

Housing associations own both permanent dwellings to rent for a range of housing needs, and temporary accommodation to meet special needs, such as hostels and other furnished housing. From the early 1960s, housing associations started to grow in response to need and the growing availability of charitable funding (Malpass, 2000: 133; Cope, 1999: 9). By the 1970s there were some very large associations, and some that were newly formed. From 1974, they needed to register with the Housing Corporation to obtain housing loans and grants. This funding came from central government but local authorities also were able to support housing associations. They provided low interest loans, other sources of subsidy,

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[6] The almshouses were first created in the twelfth century in the UK as a charitable housing provider for the indigent and elderly. The almshouses are still in existence to support their residents as providers of sheltered housing. Alms mean monies or services to help the poor in the term of the Christian tradition (http://www.almshouses.org/).

and land at discounted prices (Farthing and Lambert, 1996: 37-38).

Housing associations began to expand and modernise in the 1970s. According to Housing and Construction Statistics, new building by housing associations increased from 9,920 in 1974 to 17,835 in 1979, and the number of renovations increased from 4,132 in 1974 to 20,097 in 1979 (Malpass, 2000:169). As Figure 3-2 shows, the production of social housing by housing associations in England has fluctuated considerably in the period from 1950 to 2002, while production in other parts of the UK, though much smaller, has also been more stable over time. The main peaks in England in the 1970s and 1990s are attributable to the effects of the Housing Act 1974 (the increase in funding through the Housing Corporation) and the Housing Act 1988 (the introduction of the mixed public-private sector funding regime).

Figure 3-2   Number of housing association properties constructed, 1950-2003
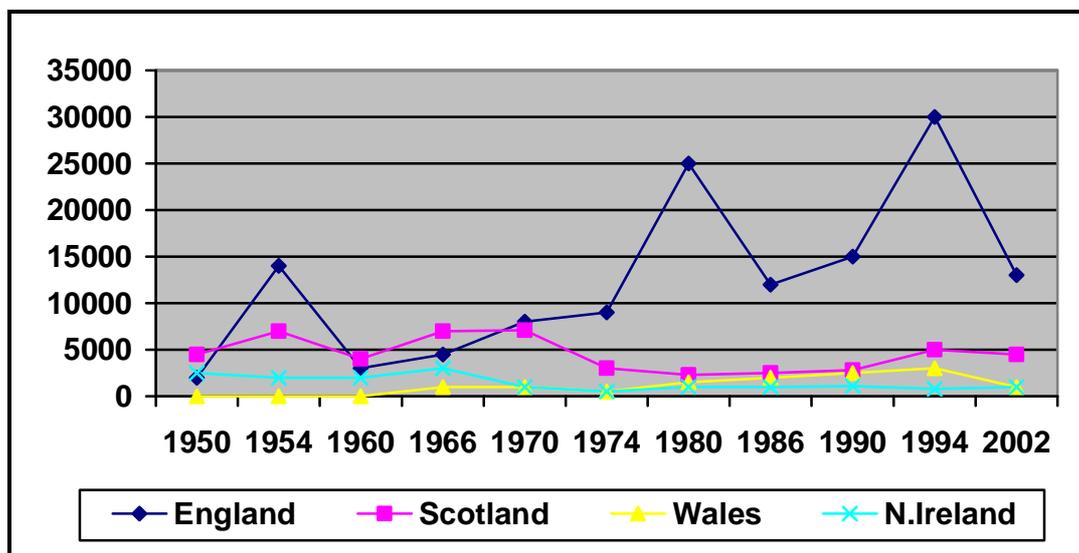
Source: Mullins and Murie, 2006:186

The growth of housing associations in the 1970s was fuelled partly by a central government

view that, in providing an increased supply of rented property, housing associations could compensate for the continuing decline of the private rented sector. The growth in the 1990s, however, was due to a belief that associations were now part of the 'social housing sector' and had an important role to play as an alternative and a successor to the local authorities. It was this trend that gave rise to the need for some theoretical strategies about how to integrate all public housing providers in governance, accountability and performance (Malpass, 2000: 196-197).

Developers of local communities

The traditional role of housing associations is to provide affordable housing for low-income people at a price they can afford. However, the role of housing associations has been diversified from this traditional activity. The role of the English housing association sector has become extremely complex. Cope (1999) notes that a matter of concern for housing associations is the diversity of their activities, with accountability to tenants, local authority partners and regulatory bodies. Mullins and Murie (2006) observe:

> [The] tendency [to diversification has led some to argue that] housing associations should focus on their core business of developing and managing rented homes, while others maintained that housing associations had always been about more than just homes and that the current agenda demanded a wider neighbourhood and community focus (page 209).

Diversification has become more of an issue as a result of the growth arising from stock transfer. These new or rapidly expanded associations were very different to the traditional model. Traditional housing associations had a geographical focus and they focused on

delivering social housing. On the other hand, some stock transfer and other 'growth oriented' associations have sought to expand their activities to a wider geographical area, sometimes through merger with traditional small housing associations. Often with the encouragement of government and the Housing Corporation, these associations have tried to redefine their activities, for example, by managing their housing stocks in ways that 'develop communities', by improving the local environment, and addressing issues of social exclusion and poverty. Developing community partnership has been seen as a way of reshaping communities, in line with the government agenda for 'sustainable communities'. Some housing associations have significantly influenced what happens at local levels, and housing associations have been involved in other local activities to meet their tenants' needs within communities (Mullins and Murie, 2006). In particular housing associations have taken an important place in community regeneration programmes with a wide variety of other key workers. According to the Housing Corporation, the introduction of competition into the English social housing sector has led to housing associations working more effectively and has increased their role in providing other types of housing rather than providing only social housing (Housing Corporation, 1999). For instance, in response to wider demands, housing associations have expanded their management of non-social housing activities, so that by 2006, housing associations owned nearly 39,000 non-social housing units, mainly in the form of student accommodation.

As a developer of and an important partner in communities, housing associations are accountable to a range of community businesses and their tenants. These are important roles aimed at covering many social and economic issues: 'crime, education, health, jobs, enterprise, family policy and access to services, and information and community building' (Cope, 1999: 200). Housing associations have an important role in community development

in rural and urban areas. In this context, housing associations can be seen as significant contributors in community development including the prevention of social exclusion. Housing associations are emerging as 'social enterprises' to respond to community needs through creating clusters of activity and networks (Slatter, 2001).

Vehicles of the government

Housing societies (associations) were given subsidies under the Housing Acts of 1961 and 1964 to encourage the development of new forms of tenure such as cost-rent and co-ownership housing. The Housing Corporation was established by the 1964 Act to administer loans to fund these new developments. The availability of funds influenced the establishment of new associations and encouraged existing ones to grow. During the 1960s, there were various new movements for the development of the social housing sector, the most successful of which (though in a small way) was the co-ownership initiative. To its supporters, co-ownership was seen as an important means of developing the social housing sector in various ways[7]. Malpass (2000:137) describes the scheme as follows:

> The basic principles of co-ownership were that the members of a society were
> the people living in the dwellings provided, and that each member was required
> to pay a proportion of the cost of construction. The promotion of cost-rent and
> co-ownership societies has to be seen as an attempt to develop a more diverse
> and modernised pattern of housing provision (Malpass, 2000:137).

During the 1960s some housing associations also expanded their work through the acquisition and improvement of older housing, often supported by charitable funds or funds

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[7] The number of housing built in co-ownership schemes in the UK was 36,306. Co-ownership grew continually, even though there were some difficulties with raising funds and increasing interest rates (Housing Corporation, 1980:25).

from local authorities. These activities grew in scope following the 1969 Housing Act which for the first time introduced an area approach to older housing improvement. This policy was strengthened by the Housing Act 1974, which also provided support for housing associations through loans and subsidies, administered by the Housing Corporation, whose role and responsibilities were substantially changed under the Act, including being given responsibility for registering and monitoring the work of housing associations. In this way, central government attempted to empower social housing associations to achieve a greater variety of rented housing (Balchin and Rhoden, 2002: 233). Moreover, central government was not satisfied with the performance of local housing authorities. It meant that, over time, central government turned to housing associations due to criticism of the performance of local authorities. The government fostered housing associations as a 'third arm' in social housing provision, and the 1974 Housing Act was partly designed with that purpose in mind. The 1973 White Paper that preceded the Housing Act 1974 said

> The government will look to housing associations increasingly to acquire and manage property in Housing Action Areas and so preserve a wide range of choice of rented accommodation. The Housing Corporation, together with the National Building Agency, will be ready to help housing associations to carry out this key social role, by supporting them both financially and with technical advice. The government looks to local authorities to work closely with housing associations and make full use of their expertise and enthusiasm in attacking the problems caused by the decline of the private rented sector. (Great Britain, 1973:7, quoted in Malpass, 2000:158)

Instead of being on the margins, housing associations in future were to take their place both as a partner with local authorities in local housing services and as an agent of government policy in the social housing sector. The price paid for this was the increasing subjection of

housing associations to monitoring, to scrutiny of all their new building proposals, to government influence over rent setting, and eventually to systems of regulation and inspection that have grown steadily over time but particularly since the early 1990s. These changes limited the independence of housing associations yet most associations were willing to accept them as a means of achieving growth and possibly influence. They enabled housing associations to play a significant role with local authorities in the social housing sector (Malpass, 2000:164).

In the 1980s, the Conservative government encouraged housing associations to become the main providers of social housing and to follow similar principles to those required of local authorities, including the customer focus, the 3Es (Economy, Effectiveness, Efficiency) and (under the succeeding Labour government) Best Value. In general, housing associations have embraced the thinking and approaches of the New Public Management and the agendas of 'reform' and 'modernisation'. In this way, they have become important vehicles for government policy.

3.3.4 Why housing associations, not local authorities?

In the period of Conservative government from 1979-1997, central-local government relationships could be defined as 'combative' and 'conflictual'. Central government regarded local authorities as 'inefficient', 'wasteful' and in need of reform (Stewart and Stoker, 1995). In the 1990s, the government took more responsibility for urban and housing conditions. The responsibility of the centre for housing has meant that government has overall responsibility for supporting social housing organisations in financial and policy aspects. It was even claimed that social housing organisations were becoming nationalised

social developers with the advantage that they could raise private funds (Cope, 1999; Malpass, 2000).

Under the Thatcher government, the performance management culture drove housing associations into becoming 'business-like' organisations. The emphasis on maximising performance from public funds was important to the Conservative government, and was symbolised in the New Public Management (NPM), based on market mechanisms in the public sector to promote high performance with limited resources (Oatley, 1998). The government pressured housing associations with high output targets and limited funding to increase 'efficiency'. Large housing associations may have 40,000 properties or more, while small associations may have less than 50 properties. It is more probable that large associations can maximise their use of public funds. Hence, smaller housing associations complained about the burdens of regulation that apply equally to small and large organisations, while the lion's share of resources tends to go to the larger associations that can apply government policy into the social housing sector (Mullins, 1997:308). Funding for housing associations declined after 1992. Seeking security in size, mergers began to take place and new associations were created through the process of housing stock transfer (Mullins and Murie, 2006: 184). Gibb, Munro and Satsangi (1999) note that the government preferred investment in housing associations.

> For the Conservative administrations [from] 1979, the non-monopolistic and 'non-political' housing association movement was preferable to larger and generally politically non-sympathetic local authorities (Gibb, Munro and Satsagi, 1999:106).

A central aim for the Conservative government was to curtail public expenditure. As a

result, local authority housing department and housing association funding was cut. The Housing Act 1980 promoted home ownership schemes for tenants, including the 'right to buy' their council house. The housing policy of the government was to reduce housing investment in the public sector and to encourage home ownership (Malpass and Murie, 1999: 78). For example, the Conservative government emphasised the Approved Development Programme (ADP) to improve home ownership through housing associations. The ADP implemented by the Housing Corporation reflected the government scheme to promote 'the Right to Buy' and 'low-cost home ownership' schemes, and encouraged local authorities to transfer their properties to housing associations. Housing associations therefore became an important element in the Conservative government housing strategy for meeting the needs of people on low incomes (Bramley and Dunmore, 1996).

The 1980s was a time when housing associations changed in both scale and character in the social housing sector (Malpass, 2000: 15). The Housing Act 1988 encouraged tenants to transfer from local authorities to other social landlords. Housing associations developed in size, reflecting the government's desire to promote the so-called 'independent rented sector' and home ownership as a means to the end of replacing local authority housing. At that time, the power of the Thatcher government was at a peak with its views on deregulation, privatisation and competition. The government had brought a significant change with its emphasis on competition, accountability, performance and value for money in housing, health and education. The encouragement of housing associations was part of that process of change and the role of local authorities was destined to be one of 'enablers' rather than 'providers'

The future role of local authorities will essentially be a strategic one identifying

housing needs and demands, encouraging innovative methods of provision by other bodies to meet such needs, maximising the use of private finance, and encouraging the new interest in the revival of the independent rented sector. In order to fulfil this strategic role they will have to work closely with housing association; private landlords and other providers of finance (Malpass, 2000:189).

Housing associations thus became partners with local authorities in accordance with government housing policy. However much the local authorities may have disliked the situation, they knew that the contribution of housing associations was going to be important in meeting local housing needs and thus learnt to work with the associations. Once again, the role of the Housing Corporation was strengthened in controlling and providing grants to housing associations (Cope, 1999: 52-53).

Housing associations became an instrument of the Thatcher government, in particular through the break-up of monopoly social housing provision at local authority level. Central government could control and influence associations through the financial and regulatory powers of the Housing Corporation. One of the attractions was that housing associations were seen to be less bureaucratic in effectively delivering social housing. Their undemocratic nature has been attractive to centrally-minded governments and they will never provide the political opposition that can characterise central-local government relations. An early attraction also was their smaller size, compared with local authorities, though in fact many of them are getting bigger and bigger (Malpass & Mullins, 2001:9). To successive governments with centralising tendencies, housing associations have proved an attractive way of achieving some of their social housing objectives.

3.4 Concluding comments

Housing policy under the Conservative governments of Thatcher and Major focused on owner occupation, the application of market principles, reducing public expenditure, the 'Right to Buy', deregulation of private renting and finance, and Compulsory Competitive Tendering. Homeownership increased from 1979 to 1997. Many council stocks moved to homeownership or were transferred to housing associations. There was a diversification of social housing providers and increased performance management and regulation were introduced in the social housing sector. These trends continued under the Blair administration from 1997-2007, though the Labour government followed a more comprehensive approach to the social housing sector, introducing Best Value, community-based housing management and re-introducing a form of strategic housing investment.

Throughout these years, in fact from 1974 onwards, housing associations in England have experienced significant change. They have taken over from local authorities a significant part of the council housing stock and have become the only providers of new-build social housing (Walker and Smith, 1999: 737). A fundamental change in the financial arrangements for housing associations was through the introduction of the Housing Act 1988, under which associations were able to use mixed funds from the public and private sector. It is important to emphasise that housing associations are still about the provision of social housing, and their role in community development is a growing one. This may be at odds, however, with their self-perception of housing associations as 'businesses' though this is possibly a result of the strong pressures on associations related to 'performance'. Most accounts of the housing association sector currently link its development to value for money, performance and social accountability. In this sense performance measurement has acquired

an important role in the development of the housing association sector.

CHAPTER 4

PERFORMANCE MEASUREMENT FOR HOUSING ASSOCIATIONS

4.1 Introduction

Chapters 2 and 3 respectively discussed performance measurement and housing policy related to housing associations in England. This chapter considers some of the main features and issues of performance measurement systems in the social housing sector, with particular reference to housing associations. The chapter begins with an account of the key players in performance measurement systems for housing associations, drawn mainly from government sources and other official documents. It looks at the changing roles of regulatory organisations in the housing association sector, focusing on central government, the Audit Commission and the Housing Corporation, which are (or, in the case of the Housing Corporation, was until recently) responsible for evaluating the performance of housing associations. These regulatory bodies have worked together to inspect the performance and assess the efficiency of housing associations. It can be suggested that increased emphasis on 'performance' has led to greater regulation and accountability within the housing association sector, in line with a growing emphasis on the public responsibility of the housing association sector in England (Walker and Smith, 1999; Housing Corporation, 2005).

This chapter is divided into three sections. In the first section, the role of regulatory organisations is explored, focusing on central government, the Audit Commission and the Housing Corporation in England. In particular the section looks at changes in the role of the Housing Corporation as an investor in social housing, a regulator of RSLs and an advisor

on policy and practice in the social housing sector[8]. Some of the changes affecting the Housing Corporation relate to changes in housing policy; and to the transfer in 2003 of the housing association inspection role from the Housing Corporation to the Audit Commission. The second section is an overview of the performance measurement framework for housing associations in England. The final section considers key issues of performance in the housing association sector, including the Housing Corporation's Regulatory Code, risk-based regulation, self-assessment and the Housing Corporation Assessment (HAS). The chapter is the basis for later chapters that present case studies of performance management and measurement in practice.

4.2 Who regulates housing associations?

The approach to regulation in housing associations reflects the hierarchical relations between service delivery organisations and government (Figure 4-1).

Figure 4-1   Hierarchical influences on regulation
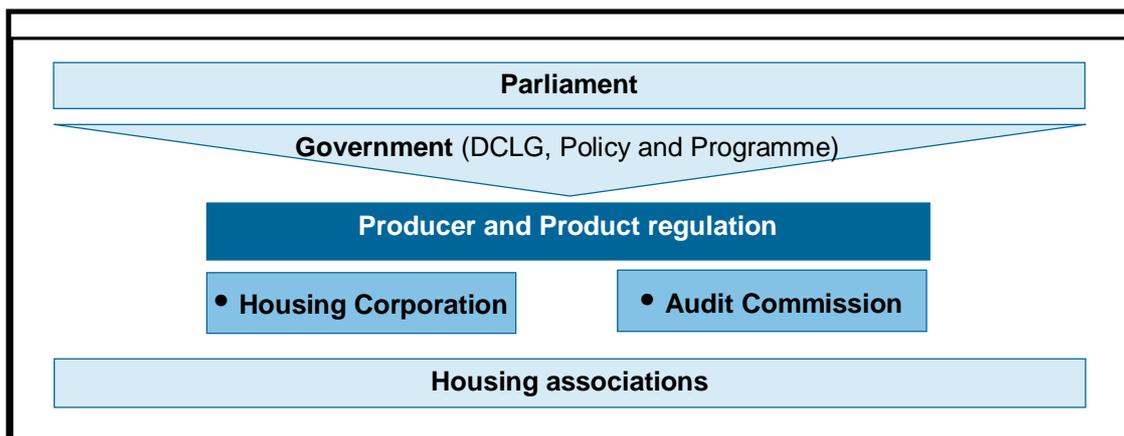
4.2.1 Central Government

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[8] As noted previously, the research relates to the period before December 2008 when the functions of the Housing Corporation were transferred to the Homes and Communities Agency and the Tenants Services Agency, under the provisions of the Housing and Regeneration Act 2008.

Central government's key role in relation to performance measurement is to ensure that, by developing performance measurement guidance, social housing providers have a clear understanding of what they have to do. The Department of Communities and Local Government (hereafter DCLG) summarised its roles in the performance management framework as follows:

> DCLG finalise a Best Value in Housing framework for local authorities and also help the Housing Corporation in preparing a best value framework for RSLs (DCLGb, 2006: 21).

DCLG is responsible to Parliament for housing services in England, including being accountable for the performance of the Housing Corporation. The department's role in relation to the Housing Corporation has been described as follows:

- To approve the Corporation's strategies and objectives and the policy and performance framework within which the Corporation will operate;
- To regulate to promote a viable, efficient and effective, properly governed and properly managed RSL sector;
- To develop a national programme of investment in affordable housing for the approval of Ministers. The Programme should be developed in consultation with Regional Housing Boards and deliver agreed national and regional priorities and targets;
- To pay grants to RSLs and non-RSLs for investment in new stock and refurbishment of existing stock to ensure that national and regional priorities and targets are met,

secure sustainable communities and the effective and efficient delivery of new affordable housing;

- To encourage RSLs and non-RSLs to provide decent homes, deliver efficient, effective, high quality and value for money housing services and innovate to deliver continuous improvement;

- To approve the determinations and other matters necessary for the conduct of the Corporation's various grant regimes;

- To appoint to the Board of the Corporation, the Chief Executive, Chairman and members and set terms and conditions of such appointments;

- To keep Parliament informed about the Corporation's performance (ODPM[9], 2005: 6).

DCLG, like its predecessor ODPM, is responsible for the overall management of the Corporation and for ensuring that the works, plans and funds of the Corporation are in accordance with central government's policy aims, priorities and targets. Especially, the department gives advice to the Corporation on performance, budgeting and various aspects of risk management. It means the Corporation's overall management is set out in the department's priorities. The DCLG works closely with other bodies involved in housing affairs, such as Regional Housing Boards (RHBs), Regional Assemblies, and local authorities. The DCLG's role in establishing the performance measurement framework is grounded in its strategic plans. According to the department, the Board structure of DCLG in 2006 consisted of six groups, one of which was the Housing Strategy and Support Directorate (HSSD), which led on the national housing programme and strategic framework for the

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[9] Following a Cabinet reshuffle in May 2006, The Office of the Deputy Prime Minister was abolished and many of its responsibilities (including those for housing) were transferred to the new Department for Communities and Local Government (DCLG).

DCLG's work, and sponsored the Housing Corporation for housing and regeneration delivery. The HSSD was responsible also for organising social housing services, bringing together analysis, management and planning of social housing activities (DCLG, 2006b). Regional Housing Boards (RHBs) were established in 2003 to support the DCLG on capital investment. The role of the RHBs is to advise Ministers on allocating public funds for housing in each region. For example, the sums assigned to RHBs were £2.5bn in 2004-2005 and £2.6bn in 2005-2006. The DCLG 'works closely with relevant partners', the Housing Corporation and the Audit Commission, to develop social housing performance management.

The Department provides the performance management framework for the social housing sector, but the Housing Corporation and housing associations have discretion to implement their policies within the overall framework (DCLG, 2007). The central government is responsible for the overall management of social housing services. It is responsible also for ensuring that the public funds allocated to social housing providers achieve value for money. Much of this is done by delegating the task of detailed regulation and inspection to agencies such as the Housing Corporation and the Audit Commission, so that the position of central government is usually at 'arms length' in relation to individual housing associations. The growth of a professional regulation network contrasts with the early days of government support for housing associations, when much detailed scrutiny of their work, including even the design and layout of housing developments, was carried out by the relevant government department.

4.2.2 The Audit Commission

The Audit Commission has the power to inspect the quality of services

provided by housing associations (formally known[10] as registered social landlords (RSLs)) in England and the arrangements they have in place to ensure continuous improvement. The Audit Commission's inspection role and remit for inspections of RSLs is set out in the Audit Commission Act 1998 (as amended by section 109 of the Local Government Act 2003) (Audit Commission, 2005a: 19).

The Audit Commission is a Non-Departmental Public Body, independent of central and local government. As the Commission's sponsor, however, the government has a duty to ensure the Commission's management processes are robust and secure (Hollingsworth and White, 1999). The Audit Commission is responsible for inspecting public service organisations and their use of public funds. In this respect, it is also a control institution for central government (Cope and Goodship, 2002:35). The main role of the Commission is to ensure that public organisations spend public money economically, efficiently and effectively. It aims to improve the quality of public services. In its own words, the mission of the Audit Commission (2003, 38-39) is to promote good practice and to help public service organisations make better outcomes for citizens. Mainly, the Commission's work lies on the line between 'regulation', 'inspection' and advisory activity (Hood, James and Scott, 2000: 291). The Commission has three main roles that aim to improve the effectiveness of performance management: those of regulator, inspector, and provider of advice.

The Audit Commission supports local democracy and public accountability. It has focused on 'improving public sector efficiency' to ensure the quality and assure the efficacy of public services, and to monitor public organisations. The Commission has greatly enhanced its power since it was established in 1982 (Radford, 1991: 912).

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[10] Until December 2008, when the term 'RSL' was abolished

The development of the audit system in the UK can be traced back to the District Audit Service created to examine the accounts of local government in England and Wales in 1846. The District Audit Service was operated by independent inspectors employed by central government, in order to keep a distance between the auditors and the audited bodies and this has remained an essential feature of all subsequent public sector audit arrangements. Responsibility for the District Audit was taken by the government department responsible for local government matters, latterly the Department of the Environment, but was transferred to the Audit Commission on its creation under the Local Government Finance Act 1982. As 'owner of District Audit' as defined by the 1982 Act, the Commission appoints the District Auditor or a private firm to audit each local government and health service organisation (Hollingsworth and White, 1999).

> The Commission was created at a time when conflict between local and central government was particularly acute. It was widely seen as part of the first Thatcher government's package of measures to curb local powers and was regarded with suspicion and hostility by many people in local government (Hollingsworth, White and Harden, 1998: 80).

Under the Conservative Governments of Margaret Thatcher, the responsibility of public service organisations to ensure value for money was applied to local government. Therefore, the role of the Audit Commission became more important over time, and was extended in 1990 to include the National Health Service (Audit Commission, 1998). The Local Government Act 1992 required the Commission to develop performance indicators and to publish information on comparative performance.

The Commission has applied the Best Value regime to the public sector, especially to local

authorities in England and Wales. The Best Value regime was introduced by the Audit Commission Act 1998 and the Local Government Act 1999. The Commission was given responsibility for the Comprehensive Performance Assessment (CPA) of public service organisations (Audit Commission, 2005b, 4-12). And in 2003, it acquired from the Housing Corporation the responsibility for inspecting the work of housing associations in England.

4.2.3 The Housing Corporation

The Housing Corporation (hereafter the Corporation) was established by the 1964 Housing Act. Under the Housing and Regeneration Act 2008, its responsibilities were transferred in December 2008 to the Homes and Communities Agency and the Tenants Services Authority. The discussion throughout this thesis, however, relates to the period before the creation of the HCA and TSA.

The establishment of the Corporation was connected with the growth of the voluntary housing movement in the 1960s, as discussed in the previous chapter (Housing Corporation, 2004a). The Corporation was a 'Quango', a quasi-non-government-organisation which is not a government body but works for the public sector (Wettenhall, 1981). The Housing Corporation was sponsored by successive government departments, most recently the Department for Communities and Local Government (DCLG), which appointed Board members (up to 15 members) including the Chief Executive of the Corporation. The Head Office was in London and there were eight regional offices in England. The Corporation covered only England: other parts of the UK have their own systems for dealing with housing associations: the Welsh Assembly, Communities Scotland and the Northern Ireland Housing Executive.

The Corporation operated within the national framework set by DCLG to implement national housing policy and develop regional housing policy.   The Corporation's main roles were:

- Investing: the Corporation implemented regional and national housing polices through public funds.   In the 2004-06 Plan, the Corporation invested £3.3 billion in 62,000 affordable homes (Housing Corporation, 2006a).

- Regulating: the Corporation was responsible for regulating housing associations, with the aim of improving their performance.

- Influencing: the Corporation aimed to support the development of the RSL sector and to contribute to the formulation of policies for housing and communities.

Each of these roles will be considered in turn.

The main features of the Corporation's objectives were to ensure public funds achieved good value for money.   In addition to supporting housing associations, the Corporation funded housing associations, undertook inspection and provided policy advice.

The Corporation as investor

The main role of the Corporation was to fund new affordable housing and regulate housing associations in England.   The Corporation had responsibilities for ensuring national requirements and delivery targets (Cooper, 1990). The Corporation was responsible for performance management, strategic policy and its implementation.   There were four core objectives (Housing Corporation, 2004):

- More quality homes

- Improving landlord performance

- Providing expertise

- Building a 'can-do' culture

According to the Corporation, it led the way in investing for more quality homes, through the so-called Approved Development Programme (ADP). These funds increased from £1,300 million in 2000 to £2,108 million in 2004, though were reduced in 2005 to £1,743:

Grants to registered social landlords 2000   £1,300 million

2001 £1,374 million

2002 £1,387 million

2003 £1,712 million

2004 £2,108 million

2005 £1,743 million

The underlying trend, however, was one of increasing funding for investment (Housing Corporation, 2001; 2002; 2003; 2004; 2005).

The Corporation as regulator

In the housing association sector, a regulation system can be understood as a process between organisations, in particular the regulators and the housing associations. The regulation system consists of a number of approaches, mainly based on housing association self-

regulation and on financial audit by the Corporation. One of the Corporation's activities is similar to the role of the Audit Commission in relation to local authorities, in the sense of using performance management information so that, as part of its regulatory role, the Corporation (2004b: 15):

……can and should be in a position to mount challenges on risk matters including:

- Challenging the association's information in terms of its relevance, completeness, accuracy and presentation and also the uses to which it has been put
- Challenging the association's interpretation of its circumstances and the materiality of the risks it is facing
- Challenging the mitigation and management arrangements adopted by the association and the capability of the management and staff to apply them.

The Corporation and the Audit Commission both monitor RSL performance through Performance Standards and Performance Indicators (PIs). The Corporation uses the Social Housing Standards to encourage RSLs to improve housing standards, including rents and service charges, lettings, and repairs and maintenance. The Corporation employed approximately 60 performance indicators to assess the performance of housing associations. The information for regulation is provided through the annual statistical returns completed by housing associations. The Corporation explains its role as follows:

The acid test of our regulatory performance is our ability to assure funders, service users and other interested parties that registered housing associations remain managerially and financially viable and conduct themselves in a fit and proper manner (Housing Corporation, 1999:24).

The purpose of regulation is to improve the performance of housing associations. It is organised in accordance with the requirements of the Housing Acts of 1996 and 2004 and other statutes. The Corporation is responsible for the regulation of RSLs. The performance of housing association is assessed against targets for improving the 3Es and the quality of social housing services, based on the key approaches of transparency, accountability, proportionality, consistency and targeting (Housing Corporation, 2005b).

The Corporation as advisor

Much of the regime for managing housing associations is determined by the government. The Corporation has had a strong interest in seeking to influence government policy where it affects the housing association sector. This has been done in a variety of ways, and has included working closely with other organisations, for example, the National Housing Federation, the Chartered Institute of Housing, the Audit Commission, English Partnerships[11], local government and, of course, DCLG. The Corporation has sought also to give practical advice by promoting innovation and good practice across the housing association sector (Housing Corporation, 2008). The Corporation has been empowered to give 'guidance as to the management of social housing by registered housing associations covering how they assess housing demand, allocations policy, tenancy conditions, standards of maintenance and repairs, and how they consult tenants' (Cooper, 1990, 38). Moreover, the Corporation has encouraged the fashion for housing associations to refer to themselves as 'businesses' or even 'social businesses'.

4.3 The performance assessment system for housing associations

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[11] Now also part of the Homes and Communities Agency

This section describes the assessment process for housing associations. In order to understand the process, it is essential to look in outline at the main regulatory systems. According to the literature review on performance management (Chapter 2) the key goals of performance measurement systems are to develop mechanisms for internal business strategies, providing information that can be used by both regulated organisations and their regulators to achieve desired goals. Performance measurement systems aim to develop formal and informal control systems for monitoring whether the performance of social services is consistent with government priorities; for solving the information disequilibrium between supervisors and agencies; and for determining an organisation's social accountability.

4.3.1 Rational approach to performance measurement

The main principles of performance measurement are based on proportionality, accountability, consistency, transparency and targeting (Audit Commission, 2005a). The approach to performance measurement for housing associations is outcome-focused (Mullins and Murie, 2006). The responsibility for measuring the performance of RSLs lies first with the RSLs through self-assessment. Central government organises the process by providing clear objectives; establishing the basic framework; and setting reasonable performance indicators and plans. It has to take a fundamental look at the whole performance measurement framework and the strategies against which social housing providers, both local authorities and RSLs, will need to improve their performance to meet the requirements of central government. The DCLG (2007) established the performance improvement framework as shown in Figure 4-2:

Figure 4-2 The cyclical nature of the performance improvement framework
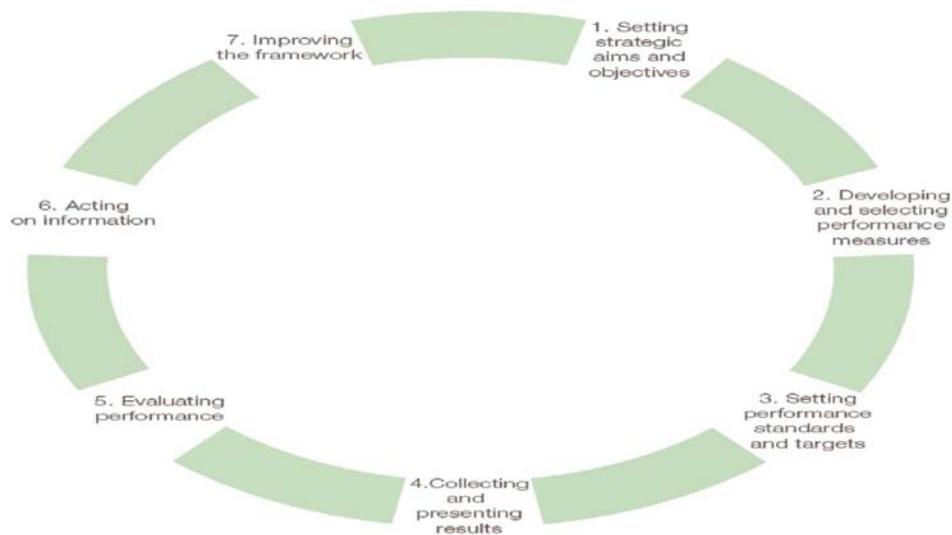
Source: DCLG (2007: 14)

There are seven key stages in the framework; setting strategic aims and objectives, developing and selecting performance measures, setting performance standards and targets, collecting and presenting results, evaluating performance, acting on information, and improving the framework. All the stages are important for setting an effective performance framework. In particular, the department's view is that working with other organisations, including regulated and regulatory organisations, is the key to making the framework effective.

In particular, a performance measurement system is regarded as essential in checking how national public policies and priorities are implemented within public-funded organisations. It is linked to whether those who use the services are well served. The Audit Commission (1998: 10) said that 'audit and inspection will have a key role to play in giving local people, and central government, a clear idea of whether best value is being obtained – accountability

will be complementary and interlinked'. Performance measurement can be implemented through a regulatory flow chart – an approach that is often referred to as the hierarchical framework. Links between regulatory organisations and other public bodies are coordinated through relationships within the regulatory flow chart as shown in Figure 4-3.

Figure 4-3   The regulatory flow chart
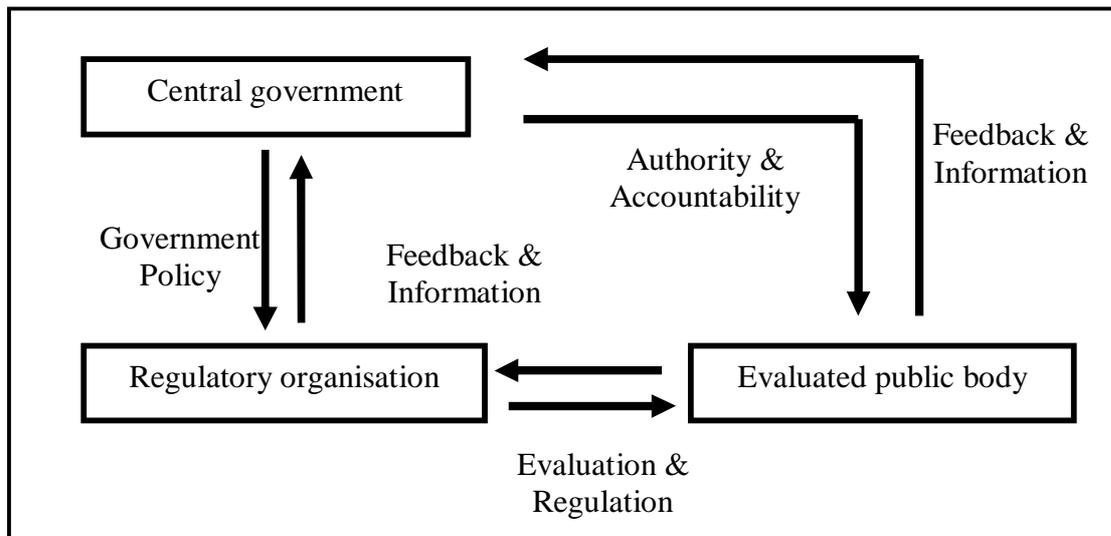
Figure 4-3 shows that central government influences the regulatory organisations through government policy, while regulatory organisations evaluate the information obtained from public-funded bodies. It means that regulatory organisations are much influenced by central government; and they, in turn, have a strong influence on the evaluated organisations and the outcomes of their activities. In this way, public-funded organisations have to be accountable for public funds. Thus, relationships between the regulatory organisations and evaluated organisations are important and useful in understanding the nature of the regulatory process.

Effective management depends on setting strategic organisation targets based on acceptable

performance information. Regulatory-public-funded organisation relationships represent an important dynamic in the delivery of policy and social services. The relationships with central government are important also because social services rely on the characteristics of national public policy. Performance measurement can be seen as a central government strategy to improve social services for the benefit of the people who use these services (Humphrey, 2002: 48). An important element in the process of performance measurement is the measurement information given by public-funded organisations. When this information forms part of feedback in the process, it can be used to set out an overall regulatory plan for future engagement. The information is key and crucial evidence for judging whether an association is doing well or not.

Performance measurement is another interaction area between regulatory and regulated organisations and will often show that they have different objectives and interests. The government's agenda and policies influence the regulatory organisations' priorities in a way that imposes strategic orientations on the regulated organisations. A more detailed account follows of the approaches used by the Housing Corporation and the Audit Commission in regulating the performance of housing associations in England.

4.3.2 The Housing Corporation regulatory approaches

The main purpose of the Corporation regulating housing associations is to secure value for money in the use of public funds (Housing Corporation, 2004b). Traditionally, the performance measurement system for government services focused on increasing the level of resources devoted to public organisations. This traditional way can overlook other important roles of improving services. Ultimately, it is to ensure that the end user receives

an appropriate service, in better ways, in which resources are deployed more cost-effectively. Performance measurement for housing associations has shifted the focus from inputs to outcomes to achieve a high quality service (Housing Corporation, 2004b). In 2002 the Housing Corporation set up the Regulatory Code and introduced the Housing Corporation Assessment (HCA) according to the Code. The HCA applies to housing associations that have more than 250 dwellings. The key element of the process is a self assessment, completed by housing associations themselves. In 2005 the Corporation introduced a risk-based assessment of housing associations. Figure 4-4 summarises the elements of the Housing Corporation Assessment for housing associations.

Figure 4-4   The HCA Regulatory Process
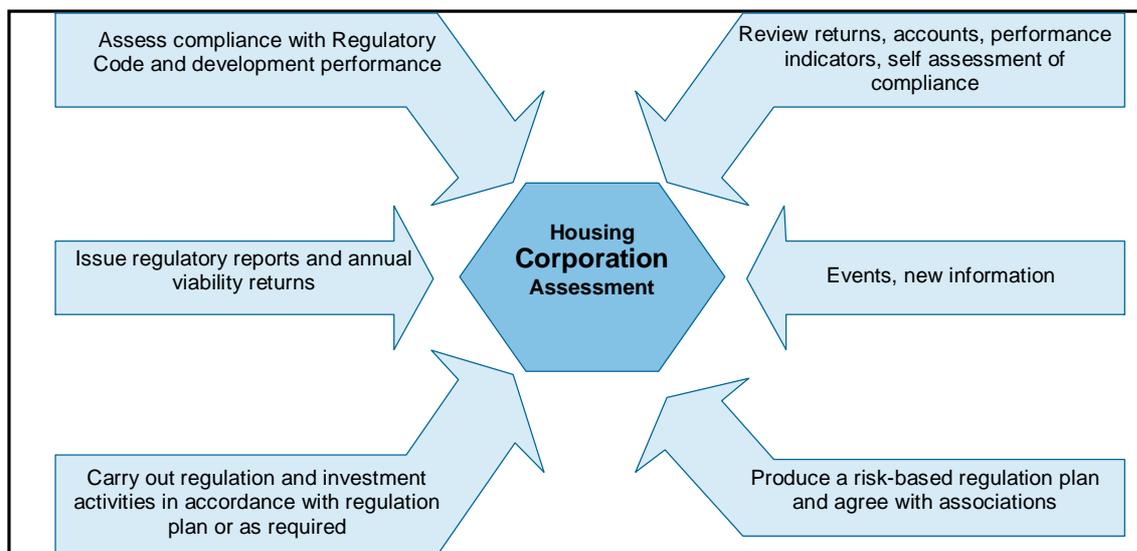
Source: Housing Corporation, 2007c.

The system enables the Corporation to supervise the general performance and the financial activities of housing associations. Housing associations in England undertake the performance assessment in accordance with the Corporation's requirements under the Regulatory Code and risk-based assessment. The Corporation then checks how well they

meet the requirements of the Regulatory Code, analysing and evaluating the self assessments using risk based regulation. The results of the assessments are presented in the form of a traffic light system for each of four categories, one relating to Development with Housing Corporation funding and the other three to the Regulatory Code parts 1 to 3 (Viable, Properly Governed, and Properly Managed respectively):

- Green: housing associations meet the requirements set out in the Regulatory Code in terms of financial viability and appropriate governance.

- Amber: The housing association's condition is of concern. The Corporation needs to take further action to ensure capable control of the association(s).

- Red: The housing association's condition is of serious concern. The Corporation does not demonstrate effective control of housing associations which are in breach of the Code (Housing Corporation, 2005c: 7).

According to the Housing Corporation's report, the HCA is the key feature in the Corporation's regulation. An HCA from the Corporation is helpful to housing associations in monitoring their effectiveness in achieving their services. The regulation focuses on 'the quality of an association's governance and management, and on its financial viability and investment capacity'. These relate to the whole control, performance management and financial viability of a social service and are based on an evaluation of risk (Housing Corporation, 2007a: 4). The Corporation provides extensive advice, guidance and good practice examples of managerial approaches.

4.3.3 The Audit Commission regulatory approaches

The Audit Commission works with the Housing Corporation in a joint protocol to assess the performance of housing associations. The Audit Commission is responsible for inspecting the performance of housing associations and their service delivery.

The objectives of the inspection are

- to judge the quality of the service for customers and the value for money of the service;
- to improve the further performance of housing associations; and
- to ensure public interest (Audit Commission, 2005a).

The Commission is working in partnership with the Housing Corporation to improve the efficiency of housing associations. The inspection is proportionate to the performance of the regulated housing association. The Commission carries out a detailed review of access and customer care, diversity, stock investment and asset management, income management, anti-social behaviour and estate management. First of all, the Commission reviews a range of documents. For further information, the Commission holds a number of interviews with the Board members, senior officers and related performance managers. The Commission Housing Inspection is based on key lines of enquiry (KLOEs) introduced in 2004. The KLOEs are a method for inspecting housing services delivered by housing associations in England.

The key stages of the inspection (performance measurement) process are:

- Understanding the context

- Reviewing performance

- Briefing the organisation

- Carrying out fieldwork

- Reporting

- Responding to the inspection findings (Audit Commission, 2005a: 13-14)

First of all, the Audit Commission reviews the regulated organisation's self- assessment and other relevant documents. The Commission then analyses key information and identifies what further information is needed. To obtain this further information, the Commission visits housing associations, including meetings with representatives of the Board, senior and other officers, and residents. When the inspection is finished, the housing association is able to comment on the draft report which, after amendment and formal presentation to the association, is posted on the Audit Commission website.

The next section explains the main issues of the performance assessment for housing associations in more detail, looking particularly at what performance measurement systems have been applied to housing associations.

4.4 The issues of performance measurement in housing associations

There have been significant changes to performance measurement for housing associations, including the introduction of the Housing Corporation's Regulatory Code, the inspection role of the Audit Commission since 2003, and the introduction of risk-based regulation. The involvement of the Audit Commission was a particularly significant development, since it removed from the Housing Corporation the responsibility for inspection, while leaving the

Corporation with its regulatory duties. It meant, however, that the Audit Commission became responsible for inspecting the work of social housing organisations in both the local authority and the housing association sectors.

The objectives of regulation are to achieve auditable information from the service delivery agencies for transparency, accountability, proportionality, consistency and targeting (Mullins and Murie, 2006). In particular, it was argued that accountability to tenants and regulatory bodies could best be achieved through the principles of openness, accessible information and consultation rather than involvement by these groups in the governance structure (Cope, 1999: 91).

This section explores the main issues of performance measurement, focussing on the activities for which the Housing Corporation has been principally responsible. The four issues to be examined are the Regulatory Code, risk-based regulation, self-assessment and the Housing Corporation Assessment (HCA).

4.4.1 The Regulatory Code

The Housing Corporation has introduced the Regulatory Code for larger housing associations' self-assessment of performance and compliance (Housing Corporation, 2004). The Code was introduced in 2002 as part of the Corporation's approach to regulation. For the Code, the Corporation created the Better Regulation Task Force (BRTF). The Corporation was to restructure geographical fields divided into four regions and its organisation for investment, regeneration, regulation and Best Value. The Code is the result of the Corporation's regulatory activities including regulatory guidance. The key purpose of

the Code is to obligate housing associations to meet the Corporation's requirements including regulations, goals and management. The Corporation is able to monitor whether housing associations have achieved according to the Code and whether they have been following the regulatory guidance. The Corporation regulates housing associations in terms of evidence and outcome-focused assessment. The Code is to meet the requirement of the Corporation in regulating housing associations: its purpose is to be:

- Outcome focused, promoting viable, well governed and well managed associations;

- Such as to lead to continuous improvement in associations' services;

- Based on evidence and the application of judgement;

- Tailored, appropriate and proportionate to the risks that associations face;

- Consistent and transparent (Indepen, 2004: 6).

The Corporation intends housing associations to operate as financially sustainable and efficient businesses. For the larger associations, the Code requires that they be *viable*, *properly governed* and *properly managed* (Housing Corporation, 2005a). Appendix 1 gives the details of the Code and how the larger housing associations that are being monitored should follow its requirements. The Code is the starting point of the regulatory process and is applied by both regulatory bodies, the Corporation and the Audit Commission. Briefly, the three categories are[12]:

- Viable – housing associations must operate viable businesses, with adequate recourse to financial resources to meet their current and future business and financial commitments (Code 1.1); it is important to identify risk.

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[12] See Appendix 2 for more details

- Properly governed – housing associations must operate according to the law and their constitutions (Code 2.1);

- Properly managed – Housing associations must set rents which move towards target social rents and are, on average, below those in the private sector for similar properties and which reflect size, property value and local earnings (Code 3.1); it is important their services are high quality and give value for money (Housing Corporation, 2005a; 2006).

The framework of the code was developed by the Corporation in consultation with the NHF, on behalf of housing associations.   The Corporation expects housing associations to assess their own performance according to the Code.

4.4.2 Risk based regulation

In 2005, for larger housing associations (over 250 dwellings), the Corporation introduced the principle of a risk tracking model focused on assessing the probability and expected impact of risks to housing associations.   The objective is to ensure that associations keep to the requirements of the Regulatory Code.   The model is based on information provided by housing associations periodically, and uses categories provided by the Housing Corporation (Housing Corporation, 2004c: 12).   It aims to build a risk profile of each housing association, and is seen also as a tool to make an appropriate regulatory strategy for improving performance.   According to the Housing Corporation reports, it is important that housing associations work according to the Corporation's objectives, specifically:

- To avoid the probability of failure against the Code; and

- To assess the impact on the delivery of the Corporation objectives in the event of failure (Housing Corporation, 2007a: 2).

The Housing Corporation's main objectives linked to risk (see Appendix 3) include viability, governance, management, and development and public investment. The regulatory issues are set out in Appendix 4, using eight factors: stock, supporting people stock, lead partner status, development, dispersion, revenue from other services, non-funded development, and decent homes standard impact score (Housing Corporation, 2007a). Where a housing association is working with managing agents, it is expected by the Corporation to carry out a risk assessment on the provision of contracted services, based on the Housing Corporation's Regulatory Code.

Table 4-1   Key risk areas

Key Risk Areas	Assessment of Risk
Governance (Properly governed)	• The organisation is properly constituted • The committee has a sufficient level of skills and experience • Responsibilities which are delegated to staff are documented
Financial viability (Viable)	• Business plan • Financial projections • Banker's reference • The annual accounts of the agency • Systems for monitoring of the annual budget
Employment of staff (properly managed)	• Equal opportunities policy • Health and safety policy • Induction programme for new staff • Operational manual for service delivery • Support and supervision of staff • Regular staff appraisals
Competence to provide the services (properly managed)	• Understanding of the needs of the proposed residents • Experience and competence at the right level to undertake services contracted by the association

Source: Housing Corporation, 2004c: 13

Table 4-1 shows the Housing Corporation's view of the key risk areas that housing associations should assess and (where relevant) on which they should require annual accounts from their managing agents.   The Corporation expects housing associations to assess the risks of the contracted services and managing agents are required to provide housing associations with regular risk information on contracted activities.   The information enables housing associations to monitor the agent, and the contracted services as well.   The information is obtained from the risk assessment.   Assessing the risk of the contracted services is part of the process of gathering the annual performance information that housing associations are required to provide the Housing Corporation.   Table 4-2 shows the key

housing management service areas that should be assessed.

Table 4-2   Key housing management services

Housing Management Areas	Risk Assessment
Selection and allocation	• Clear and appropriate referral and allocation criteria • Lettings policies that are fair and reflect the diversity of the client
Rent collection	• Systems for the efficient and effective collection rents and charges • Residents have information about rent levels and service charges
Health and safety	• Systems for monitoring and recording health and safety related to the property • Risk assessments are in place e.g. fire risk
Management of the accommodation	• Strategies in place to tackle anti-social behaviour and nuisance • Policies for dealing effectively with racial harassment • High standards of customer care • Complaints policy • Move on policy
Tenure and possession	• Most secure form of tenure that is compatible with the purpose of the accommodation • Processes for enforcement of the tenancy
Resident participation	• Strategies or policies to encourage greater participation
Performance management	• Appropriate arrangements to ensure that activities are appropriately monitored • Processes that aim to deliver continuous improvement
Maintenance (where contracted)	• Maintained in a lettable condition • There is a responsive repair service • Necessary investment in the future of the stock

Source: Housing Corporation, 2004c: 15

According to Table 4-2, assessing managing agents is based on the risk assessed.   All these

housing management areas are not outsourced to the agent, but other areas carried out by the

managing agent are determined by housing associations, including the level of rent and the type of tenure. Contracted service areas with a low level of risk need only be reviewed once every three years, while higher risk services may require much more frequent reviews, with performance returns being submitted quarterly (Housing Corporation, 2004b). The Housing Corporation quantifies the scale of the risk, identifies which risk factors are important to individual associations and explains the potential harm that could be caused. The Corporation uses this model for identifying risk issues, rather than scoring each factor. Housing associations are categorised according to four levels of potential impact and the consequent engagement required by the Corporation. The categories are:

- Low levels of regulatory engagement;

- Medium levels of regulatory engagement;

- High engagement due to impact;

- High engagement due to risk.

The level of regulatory engagement adopted depends on how well the housing association is run and managed according to the Regulatory Code. Risk-based regulation is applied through an objective assessment of impact, probability and control. Housing associations receive regulatory engagement according to the level of risk.

- Low risk: the Corporation reduces the burden of regulation by scaling back its engagement. A low level of risk means that the probability of problems occurring is low because the association is satisfactorily run and the potential impact of problems is low.

- Medium risk: the Corporation focuses on areas of weakness and pays less attention to an association's strengths.

- High impact: the Corporation may judge an association to be well run and have well managed systems but if something goes wrong, there can be a considerable risk, for example, because of the size of the association's development programme.

- High risk: housing associations at a high level of risk require close monitoring. The Corporation needs to use relatively intensive regulatory engagement but in ways that reflect the association's particular circumstances (Housing Corporation, 2005c: 5).

The level of regulatory engagement is determined at the appropriate point between the indicated levels of impact and probability. The level of probability is set out in Appendix 4.

4.4.3 Performance assessment for managing contractors

In the housing association sector, housing associations often work with other organisations that provide services under contract. These contractors are not normally registered with the Housing Corporation. As mentioned in the previous section, housing associations therefore need to assess the performance of their agents, using the Housing Corporation's Performance Assessment Framework (PAF) for agents working with housing associations, as illustrated in Figure 4-5.

Figure 4-5   Performance Assessment Framework
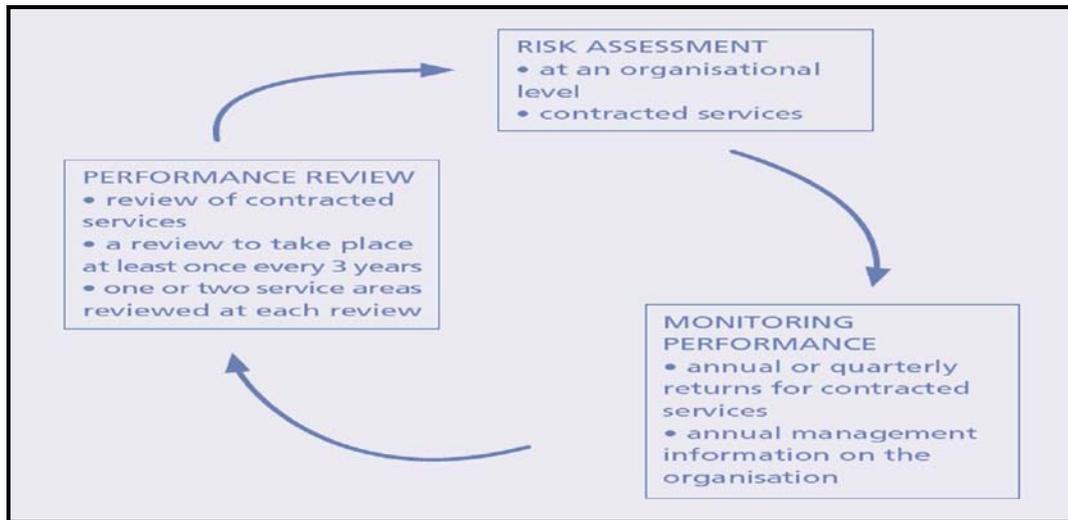
Source: Housing Corporation, 2007c.

Sometimes the performance assessment will be carried out by the housing association and sometimes the agent will undertake a self-assessment, following the standards in the Housing Corporation's Regulatory Code.   Joint working and good communication between associations and agents is encouraged, and is seen as an aid to securing value for money. The main assessment areas are shown in Appendix 1 and are based on the Performance Assessment Framework (PAF).   (Housing Corporation, 2004c).

4.4.4 Self-assessment

Self-assessment is recognised across many regulated sectors as an effective and valuable tool that demonstrates improvement and underpins good governance. It ensures the management of important outcomes and informs the relationship between the regulator and the regulated (Housing Corporation, 2007b: 1).

Self-assessment is the starting point of the performance measurement process.   The approach is grounded in the Housing Corporation's Regulatory Code.   It is based on trust

between the Corporation and housing associations and represents not only self-assessment but also self-regulation. In 2005 the Corporation introduced the Annual Efficiency Statement (AES) to induct housing associations into the use of a guideline for year-on-year improvements. The key issues for housing associations to evaluate are:

- Operating and service costs/overheads and how they compare with others

- Effectiveness of service delivery and how this compares with others

- Cost and performance factors within the association's control

- Business areas where efficiency can be achieved without reducing effectiveness (Housing Corporation, 2006a: 5).

The Audit Commission (2006a) notes that the self assessment approach enables organisations to:

- Identify service areas where they perform well and service areas that are in need of improvement;

- Provide an honest, evidence-based appraisal of progress in improving services and a demonstration of their recent track record (including progress against improvement priorities);

- Demonstrate self-awareness of their strengths and weaknesses, and where they have prioritised areas for on-going improvement; and

- Comment on previous assessments and evidence from other sources (e.g. auditors, inspectors, Government Offices and the Housing Corporation). One of the aims is to highlight where views vary from those of the association and thus to inform

discussion with Audit Commission inspectors on the quality of an association's service delivery (Audit Commission, 2006a: 2).

The process

Many housing associations in England have designed self-assessment processes, which, according to the Housing Corporation, can be opportunities for associations to identify their weaknesses and strengths. Moreover, self-assessment can be a managerial tool which demonstrates the condition of housing associations. There are several steps in the self-assessment process (Housing Corporation, 2006a).

- Step 1 (Understanding the context)

The first stage is to develop housing associations' own approach to self-assessment. The approach is based on the Regulatory Code, other guidance issued by the Housing Corporation, and the Audit Commission KLOE on value for money.

- Step 2 (Reviewing performance)

Associations analyse their services and determine reasons for performance, weakness and areas for improvement. They also look at current relative efficiency, including key internal or external drivers of cost and performance.

- Step 3 (Setting the targets)

Current performance influences the targets set for the next working year, which should be grounded in the assessment. The nature of the targets should be '*specific, measurable, achievable, realistic and time-bound*' (Housing Corporation, 2006a: 5).

- Step 4 (Reporting)

The association's board approves the assessment and then submits it to the Housing Corporation.

- Step 5 (Responding to the inspection findings)

The Housing Corporation discuss the assessment with the association. Housing Corporation regulators evaluate efficiency outcomes, performance against target, and the action plan.

Timetable

The Housing Corporation expects to have the self-assessment compliance statement within four months of the end of the financial year (31 March). Thus, housing associations have to submit the assessment statement and the annual efficiency statement by 31 July. Housing associations can choose whether they submit both statements together or separately (Housing Corporation, 2007).

The Audit Commission took over the inspection of housing associations in 2002. The self-assessment by housing associations is the starting point for all inspections. In preparation for an inspection, the Audit Commission has the following timescale:

- For housing inspection: the self-assessment will be requested about 14 weeks before fieldwork and should be submitted 8 weeks before fieldwork begins (Audit Commission, 2005a: 14).

The Audit Commission (Audit Commission, 2006b) suggests the self-assessment is in four stages. First, housing associations are asked to give an outline of their services according to the relevant context, Key Lines of Enquiry (KLOE) and the Regulatory Code. Next, they describe progress in their business and demonstrate their prospects for improvement. Finally, they provide a summary of their plans.

The issues of self-assessment compliance statements

The Audit Commission outlines the scope of self-assessment for housing associations:

- The context of the organisation must be set out as a starting point;
- Services to be inspected should link to key business drivers and high priority areas for the inspected association – these should be a combination of national and local issues;
- Core housing services delivered to the association's customers must be included;
- Any key national priorities such as the need to meet the Decent Homes. Standard must also be included; and
- The final overall scope should be balanced so that the inspection does not concentrate only on the poorer or better performing areas (Audit Commission, 2007)

The Audit Commission (2007) covers the main service areas according to the Key Lines of

Enquiry as follows:

Table 4-3   Key Lines of Enquiry

Service Area	KLOE number
• Stock investment and asset management	3
• Housing income management	4
• Resident involvement	5
• Tenancy and estate management	6
• Allocations and lettings	7
• Supported housing	11
• Management of leasehold and shared ownership housing	12
• Regeneration	14
• Right to Buy, Right to Acquire and home ownership	30
• Access and customer care	31
• Value for money	32

The KLOEs relate to service areas. A self-assessment statement should explain the outcomes achieved in relation to the Housing Corporation's Regulatory Code. The expectation is that the assessment should:

- Accurately reflect the association's compliance with the Regulatory Code,

  i.e.   explicitly identify areas of non-compliance and what action plans are in place to remedy these;

- Focus on change and continuous improvement,

  i.e.   state the outcomes that demonstrate changes in performance since last year

  i.e.   refer to improvement plans where these are in place

i.e. use performance indicators as evidence of improvement;

- Address a list of specific issues,

i.e. explicitly express compliance or non-compliance; and

- Respond to feedback given on the previous submission (Housing Corporation, 2007b, 4).

Looking at the self-assessment guidance from both the Housing Corporation and the Audit Commission, the focus of self assessment is on outcomes and results that the regulatory organisations expect of housing associations. The Housing Corporation's reliance on self-assessment is an important part of the overall regulatory framework: it is seen as a means of achieving efficiency with public funds, and an interactive reliance between associations and the Corporation.

4.4.5 Performance indicators

The performance management culture in the social rented sector has placed considerable emphasis on developing performance indicators for evaluating housing associations. Despite the development of the performance measurement approach by both the Housing Corporation and the Audit Commission, setting up performance indicators is still a difficult task in designing performance measurement systems. One of the most difficult aspects is that the achievements of social bodies cannot easily be defined, measured and monitored. Many researchers have noted that most commonly used performance indicators are focused on quantitative data, such as financial information, input units and time. As Perrin (1998) and Feller (2002) point out, in practice, performance indicators are often chosen on the basis of the data that are available, and not whether they are the most suited to reflect the

performance of social organisations. The Corporation made an assessment of housing association performance indicators against a number of criteria as shown in Table 4-4, with the intention they should be new performance indicators for 2009.

Table 4-4   Performance indicators for the year ending 31 March 2009

Performance indicator	Short title
Percentage of social housing rental dwellings vacant at 31 March	Vacant dwelling
Average days to re-let a social housing rental dwelling	Re-let time (for all managed stock)
Average SAP rating (energy efficiency) of self-contained general needs dwellings	Average SAP rating
Percentage of social housing rental stock failing to meet the Decent Homes Standard	Stock failing Decent Homes Standard
Rent arrears of current social housing tenants at the financial year end as a percentage of rent debit	Current rent arrears at FYE
Percentage of social housing tenants very satisfied or satisfied with the way their landlord deals with repairs and maintenance	Tenants satisfied with repairs and maintenance
Percentage of social housing tenants very satisfied or satisfied with the services provided by their housing association	Tenant satisfaction with services
Percentage of social housing tenants very satisfied or satisfied that their views are being taken into account by the housing association	Tenant satisfaction with their views
Percentage of social housing tenants satisfied with the quality of their newly built homes (based on lettings in the last three years)	Tenant satisfaction with new homes
Satisfaction of shared owners with the overall service provided by the association	Shared owner satisfaction overall
Percentage of shared ownership purchasers satisfied with sales process	Shared owner satisfaction with sales

Source: this list can be downloaded from the PI web, Searched 15/May/2008.

According to Table 4-4, there are various performance indicators that reflect the quality of housing associations' existing dwellings. These performance indicators are in three categories as follows:

- Dwelling regulations for meeting the Decent Homes Standard

- Legal repair duties of housing associations

- Tenant satisfaction

These performance indicators all relate to service quality and are used nationwide. Other aspects of housing quality are measured in the periodic English House Condition surveys; their goal is to chart changes in the physical quality of the national housing stock. .

There are eleven performance indicators based on the information provided via the RSR (Regulatory and Statistical Return) and CORE letting system (Continuous Recording system). These indicators relate mainly to social rented housing in local authorities and housing associations. They are grouped as follows:

- Rent level indicators

- Lettings and voids

- Stock condition

- Tenant satisfaction

- Completion of repairs

The Corporation's performance indicators are derived from 'information submitted by associations in RSR, CORE letting and FVA (electronic annual accounts) regulatory returns' (Housing Corporation, 2006a: 5).

The CORE system enables the Housing Corporation and others to monitor aspects of social housing in housing associations and local authorities. Financial PI data

(current tenant arrears) comes from the annual financial regulation return (FVA) which summarises data from associations' annual accounts. All associations owning and managing 1,000 units or more at the start of their accounting period are required to submit an FVA (the Housing Corporation web).

Performance information provided by housing associations through these data collection exercises is validated in a number of ways. It is definitely necessary to set performance indicators which reflect the condition of the stock owned by housing associations, but also it is quite difficult to measure the quality of social housing services provided by housing associations. On this point, there is a significant shift from quantitative measures to the development of tenant-focused measures in the social housing sector. Thus, a central feature of performance measurement for social housing services is the use of indicators on the social aspects of performance, which is important in determining whether 'real' social housing service objectives are being met. The indicators are based on routinely collected data that measure processes and outputs, or on special surveys such as those on tenant satisfaction. For instance, the National Housing Federation publishes STATUS [13] questionnaires and guidance that is a key element of the survey of all tenants and the collection of revised performance indicators. Performance indicators are an important means of demonstrating the sector's achievement through performance measurement. Both housing associations and their regulatory organisations are using indicators to measure performance. These indicators can influence housing association goals. Although many performance or organisational goals serve higher values that are not quantifiable, performance indicators may represent what regulatory and regulated organisations desire in practice.

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[13] The 'Standardised Tenant Satisfaction Survey'

4.4.6 Difficulties in performance measurement

Pressure to perform does not necessarily stimulate the performance of housing associations. Many housing associations claim to feel burdened with the pressure of information submissions to regulatory organisations. Forming a judgement based on the 'traffic light system' does not make clear how the information submitted has been used. Another criticism is related to simple performance indicators. In particular the context of performance is indistinct, for example it is not clear whether housing association activities are appropriately covered by performance indicators. Referring to a West Midlands case, Mullins et al. (2001) note that housing associations are under a burden of over-regulation, with overlapping and conflicting requirements. Associations realise the difficulties of the regulatory burden, but cannot themselves change the hierarchies of the regulatory system. It is the smaller housing associations that are principally affected by the regulatory burden.

There are a number of difficulties in providing a complete assessment of performance with limited performance indicators. Henderson-Stewart (1988) argued that 'an exclusive emphasis on financial measures' has been critical to performance measurement, but emphasising the issue of value measurement may be central to the effective performance measurement approach, even though there are difficulties in actually defining performance and measuring 'outcomes'. For instance, in the housing association sector, the measures of success, such as tenants' satisfaction, repairing standards and average days to re-let social rental dwellings do not of themselves indicate housing associations' efficiency. There are also difficulties in making comparisons between housing associations using purely statistical performance indicators that are not meaningful. The Housing Corporation has attempted to develop more suitable indicators that reflect the efficiency of the delivery of social housing

services.   These aim to give an overall picture of housing associations' performance, including efficiency, outcomes, residents' views and satisfaction with services.

> The current framework of performance indicators was introduced in 2001 after a formal consultation.   Since 2001, the framework has been developed through the introduction of new performance indicators in response to new government strategies and others have been refined to reflect changes to definitions or changes in the originating data collection exercises (Housing Corporation, 2007c: 2).

The Housing Corporation annually sets performance indicators for the larger RSLs – those managing 1,000 or more dwellings.   The Corporation publishes a set of 30 PIs covering associations' social housing for general needs, supported housing rental stock, and shared ownership dwellings.   In 2005, new terms were introduced to designate a new type of social housing for older people.   The performance indicators relate to the situation at 31 March. and thus it can be difficult to show performance at different stages during the year.   Broadly the Corporation's published indicators tend to focus on matters that lie within the scope of internal management.

4.5 Concluding comments

One of the key public reforms in the housing sector over the past 25 years has been the implementation of management concepts and models, including customer focus, Best Value and management drives.   Housing policy has been influenced by NPM (Mullins and Murie, 2006: 156).   The Conservative governments of 1979 to 1997 brought private sector principles into the social housing sector.   The main purpose of the social sector reform was to increase market influences, such as greater competition and the reduction of public

expenditure, and to reduce the extent of state intervention. As a result, there were considerable changes to the social housing sector.

Since 1990, performance management has become important. Targets have been set by central government in an attempt to measure the performance of housing associations using performance indicators (Cope, 1999: 237-240). Housing associations have been put under growing performance management pressures, such as competition, accountability, effectiveness and value for money. The emphasis on accountability and control was imposed on the Housing Corporation and housing associations through standard targets set by government. In this way, the government was able to steer housing associations into following government housing policy and priorities.

The performance management reforms in the social housing sector were implemented through performance measurement, in particular through the roles of inspection and regulation. It has meant that state intervention has grown to achieve public purposes. State intervention has been implemented through government policies and the work of regulatory agencies. In particular, performance measurement in the social sector has been regarded as a key element of change in the housing association sector over a period of more than 15 years (Mullins and Murie, 2006: 151).

CHAPTER 5

OVERVIEW OF THEORETICAL CONTRIBUTIONS

5.1 Introduction

This chapter addresses the shift from traditional administration to performance management within the theoretical foundations of public choice theory, principal-agent theory, accountability and trust, and game theory. The chapter has two parts. The first provides a theoretical background to the study by considering each of the theories and their influence on the performance management reforms in England. Each of the main theories is examined in turn. The second part discusses the theoretical approach for this thesis. It examines perspectives from the theories already discussed, sets out a theoretical framework for the research and discusses theoretical limitations.

Overall, the chapter aims to demonstrate the theoretical framework for the relationship between regulatory bodies and regulated social organisations; and to show that these theories can contribute to a greater understanding of the content and development of performance measurement.

5.2 Towards a theoretical background

5.2.1 Theoretical issues

This chapter opens up some research possibilities to present an overview of the most relevant theoretical concepts of performance management, control and accountability. These concepts are used to compose a theoretical framework for analysing the impact of

performance measurement in the social housing sector in England. Theory is of central importance in this thesis, especially for the interpretation of the case studies. May (2001) points out that:

> The idea of theory, or the ability to explain and understand the findings of research within a conceptual framework that makes 'sense' of the data, is the mark of a mature discipline whose aim is the systematic study of particular phenomena… An understanding of the relationship between theory and research is part of this reflexive project which focuses upon our abilities not only to apply techniques of data collection, but also to consider the nature and presuppositions of the research process (May, 2001: 29-30).

There are differences between theory and practical research. On the other hand, while academic theories may reflect limited perspectives, social theory is useful to make links from our specific case studies to those of other researchers (Clough, 1994). Cohen (1984) notes that:

> Theory aims at the production of thoughts which accord with reality. Practice aims at the production of realities which accord with thought. Therefore, common to theory and practice is an aspiration to establish congruity between thought and reality (Cohen, 1984: 339, quoted in May, 2001).

There are various theoretical contributions to performance management. The basis of performance management is not only in terms of market managerialism, but also in the role of the social sector and the regulatory regimes. Performance management reform has been lead by modern management theory and practice, such as new public management, and choice theory including customer focused, market driven managerial techniques (Ingraham,

Joyce and Donahue, 2003: 4).

Since the early 1980s the social sector in England has experienced significant change. In the New Public Management stream, performance management is a complex area of research and practice. According to Power (1988) it is about changing the nature of the traditional administration mechanism so that performance has become a growing aspect of social services management.

Measuring the performance of social organisations to improve their efficiency has become commonplace, but it is not widely known as an important part of social reforms. In many respects, performance measurement has been regarded essentially as common sense, meaning that many organisations do it intuitively (Poister and Streib, 1999: 325). Performance measurement is also seen as an important part of organisational process. It has been suggested that performance measurement is best defined as 'a means of assessing relative effectiveness, spurring improvements, and making resource allocation decisions [as] part of the public budgeting practice and literature' (Cohen and Eimicke, 1998: 68).

The changes of performance management since 1980s have been distinguished by various social science models, approaches and theories (Hood, 1991; Osborne and Gaebler, 1992). The rhetorical shift from traditional administration to performance management in the social sector could be explained by several theoretical agendas as shaping influences over performance management change. It is difficult to be certain what elements drive performance management. On the other hand, it is important and a useful first step to give specific theoretical accounts of performance management for drawing a framework, such as a conceptual map and a diagram of the influences on performance management, and then to

explain specific patterns and trends within the social sector. Hood (1991) saw change in the performance management movement having been influenced by the emergence of theories such as public choice theory, quasi-market theory and bureau maximization theory. These theories all have implications for change in the social sector and from the 1970s, as free market ideas, they challenged the Keynesian paradigm. Government was perceived as 'the problem' because government affairs were seen as both politically and economically inefficient. The free market ideas were described variously as 'neo-liberalism', 'public choice theory', 'New Right' and 'neo-managerialism' (Pierre and Peters, 2000:2; Leach and Percy-Smith, 2001:25). The present research has highlighted that performance measurement, as part of social sector management, has a place in the reform of management in the social sector.

The theoretical background of performance measurement is complex. As shown in previous chapters, there is a set of conceptual tools for the analysis of performance measurement both in theory and in practice. The discussion of performance measurement stems not only from the relationship between regulatory bodies and the regulated social organisations, but also from the 'agent' and 'game' versions of this relationship. Thus, in the agent model, social organisations are under the supervision of central government and its 'arms-length' approach; whereas in the game model, social organisations and regulatory bodies are in conflict and also in a situation of trust. For a number of reasons, obviously, public organisations are not financially independent of the centre. This has influenced the relationship to shift from that of partnership to that of agent, and has brought an erosion of autonomy for social organisations. In terms of game, there has been a dual shift with the adoption of 'hands-off' and 'hands-on' control of social organisations. The regulatory organisations may have attempted to decentralise their authority to improve the efficiency and autonomy of social

organisations in terms of partnership, and through the indirect, hands-off, control of persuasion in trust. On the other hand, the regulators have had to monitor social organisations directly to find out whether they are spending public funds 'rightly'. Not surprisingly, the increase in monitoring by the centre has led to the development of performance measurement systems. From the centre's point of view, the improvement of performance measurement, including the use of indicators, has influenced social organisations to achieve the desired higher level of performance (Cohen and Eimicke, 1998). Empirical research ideally needs a theoretical framework to analyse the research grounded in theories. Following this, the research questions in this thesis on the understanding of performance measurement in the housing association sector can be examined in terms of theoretical background. For this reason, the research needs a theoretical and contextual framework.

5.2.2 Public Choice Theory

The perspective of public choice theory derives from the study of politics implicated by economic principles. Market approaches to the public sector are strongly linked, on the radical right, with the concept of individualism. The basis of public choice theory is that 'man is an egoistic, rational utility maximizer' (Dennis and Mueller, 2003: 1). The theory is a kind of economic methodology to explain the study of political institutions. Public choice methodology has been influenced by neo-classical models of economic behaviour (William and Eskridge, 1988: 276; Metcalfe and Richards, 1993: 157-158; Wohlgemuth, 1995: 72-55; Dunleavy, 1991). Traditionally, approaches are different between economics and politics. The study of politics is based on moral principles to build better government, while economics seeks a mechanism, other than public considerations, for maximising self interest.

Tullock (1999) analysed politics as a set of ethical matters, such as voting rules and constitutional systems to which he applied the simple economic analysis of individual behaviour. Niskanen (1973) argued that bureaucrats are regarded as 'self-serving', their objectives being to maximise their budgets and influence (Dunleavy 1991: 154-173; Mckean, 1965: 498; Kimenyi and Mbaku, 1999).

> The distinctive feature of the public choice is the deductive from micro-economics. It advances a limited number of propositions. Four propositions recur; scarcity, methodological individualism, self-interest, and individual rationality... These assumptions of rational self-interested actors and methodological individualism in public choice theory are entirely compatible with the stress on markets in libertarian political philosophy and monetarism (Rhodes, 1988: 23-24).

The main approach of the public choice theory is that individuals in society give more weight to self-interest in making a decision. It means that individuals are mainly self-interested in both private and public activities, including collective action, voting and political behaviour. Therefore, the theory has addressed political questions: why people vote, and why politicians and bureaucrats maximise self-interest? The theory has taken the economic approach to the study of politics, namely that politicians are working for their own self-interest, and that voters are motivated by the benefits that may accrue to them. For most people, it is human nature to maximise one's own benefits, such as salary, promotion and even departmental budgets (Rhodes, 1988: 22-24; Mueller, 1979). Gwartney and Wagner (1988:7) say:

> Economists have used the self-interest postulate to develop theories which enhance our understanding of how markets work. Public choice represents an extension of this postulate to politics...[and] since there is no evidence that entrance into a voting booth or participation in the political process causes a personality

transformation, there is sound reason to believe that the motivation of participants in the market and political process is similar.

Public choice has become important as a means of explaining political behaviour in terms of economic principles (Buchanan and Wagner, 1977: 1-3). There are some assumptions that 'the self-interest axiom is purely formal, and human behaviour consists of egoism, rationality and maximisation' (Mueller, 2003: 1-2; Boyne, 1998: 4-5). Roach (1993: 722-724) notes that public choice theory assumes that 'the legislative process is the market and one in which concentrated interest groups have a distinct advantage. The theory has limited utility in predicting and explaining the realism of the public sector'. Nevertheless, 'evidence is everything and assumptions are irrelevant' is not the aim of the public sector. In the theory, evidence is connected to performance through competition (Boyne, 1998: 5; Simon, 1994: 45-46). The theory views the public sector as an industry. The public sector consists of sellers and buyers for public services. The buyers are the people who attempt to have more high quality public services and to pay less for their consumption through taxes. The sellers are government or politicians who provide public services for the people, and also maximise their own self-interests, such as winning an election, securing budgets and ensuring their position. On the other hand, central government provides subsidies for housing associations in the expectation of providing effective social housing services; housing associations intend to have more grants from central government, and to secure more accountability to their tenants. These ideas can be applied to the relationship between central government and housing associations, and with the independent regulatory bodies. Central government attempts to influence the social housing sector, in particular housing associations, through policies such as competition, performance measurement and regulation. It means that central government spends less money, and provides more effective services for their self-

interest (Boyne, 1998:14-16; Schneider: 1989: 612-615). The criticism of public choice is focused on 'economic imperialism' in the public sector. It has become the basis of New Right ideology.

5.2.3 The Principal-Agent Theory

The basic concept of principal-agent theory comes from the relationship between one party (the principal) and another (the agent). The relationship is not equal because the principal suffers from an 'information asymmetry' which is divided into two types: hidden information (adverse selection) and hidden action (moral hazard). These conditions introduce a problem in terms of principal-agent theory[14]. Principal-agent theory is based in the business management area but can be applied also to the social sector (Carr and Brower, 1996:302; Elgie, 2002:187; Lewis, 2006: 1; Broadbent, Dietrich and Laughlin, 1996: 266). Principal-agent theory developed from organisational management which is derived from economics in terms of links between pay and performance[15] (Carr and Brower, 1996:327; Milgrom, 1987: 303-304).

"The principal-agent approach is derived from the so-called 'new economics of organisations'. In this context, the basic starting point is the situation where one actor (the principal) has an incentive to delegate power to another actor (the agent) with the expectation that subsequently the latter will act in a way which is consistent with the

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[14] The principal-agent 'problem' is that a car owner, who is a beginner, cannot be sure a garage mechanic will take the best way to repair a car.

[15] The principals use incentives such as performance-related pay to make agents work more efficiently because, if there were no incentives, agents may prefer to shirk the demands of the principal rather than work hard for greater reward (Garen, 1994:1175-1176). On this point, Moe (1984, 754-758) has mentioned the two general problems: adverse selection and moral hazard. The principals use an incentive structure to mitigate the problems related to informational asymmetries. The theory ideally is useful to examine the agency relationship as a "*tool of organisational analysis*" and "*eclectic methodology*"

initial preferences of the former" (Elgie , 2002: 186-188).

The starting point of the theory corresponds to an assumption that the authority of superior organisations (the 'principal') is decentralised to subordinate organisations with expectations that agents will use their specialised information and capacities, and thus maximise the principal's benefits[16] (Moe, 1984:757).

The simple model of the principal-agent theory is as follows: in democratic politics, the people are the principal and central government is their agent. But central government can also be the principal, when public enterprises are the agents. Bureau heads in public enterprises are principals, bureaucratic subordinates are their agents. Democratic politics are structured by the multi relationship between the people and bureaucratic organisations because it is quite difficult to identify a single principal-agent model in the public and social sector (Carr and Brower, 1996: 324; Pollitt and Bouckaert, 2000: 135).

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[16] As theoretical concepts, there are some problems because of interactions and differences between them. "The problem of inducing an 'agent' to behave as if he were maximising the 'principal's' welfare is quite general. It exists in all organisations and in all cooperative efforts… The development of theories to explain the form which agency costs take… and how and why they are born will lead to a rich theory of organisations which is now lacking in economics and the social sciences generally" (Moe, 1987:757).

Table 5-1   The structure of multi principal agent theory in the public sector

Principal (eg, the people)
↓
Agent/Principal (eg, Central Government)
↓
Agent/Principal (eg, Public organisation)
↓
Agent (eg, civil servant)
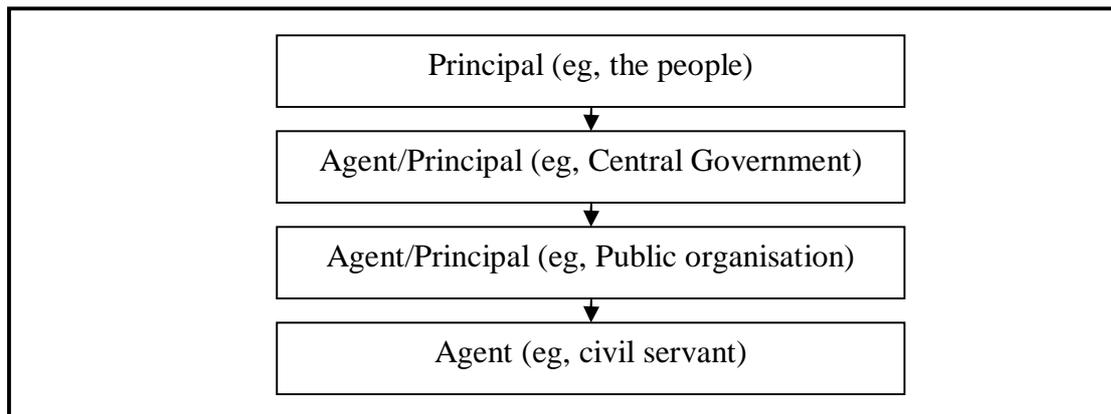
Table 5-1 shows the principal-agent theory can be applied to both the social and public sector to demonstrate the relationship between principals and agents (Carr and Brower, 1996: 302; Elgie, 2002: 187; Lewis, 2006: 1-2).   More specifically, the main idea of this theory is the interacting relationship between organisations, called principals and agents, with regard to several assumptions (Ingraham & Joyce and Donahue, 2003: 4; Moe, 1987: 475; Carr and Brower, 1996: 323-324).   Firstly, the basic assumption of principal-agent theory is that the principal has less information than the agent.   This may cause problems or concern [17] and the principal cannot exactly observe the agent's behaviour.   Second, the principal's main interest conflicts with the agent's because each prefers maximising their own benefits.   It could be possible there are 'adverse selection' and 'moral hazard' problems[18], arising from hidden action, when the principal is unable to monitor agent behaviour (Carr and Brower, 1996).   There may also be information asymmetries between the principal and the agent[19].

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[17] Carr and Brower (1996: 323) have suggested that principal-agent theory consists of several assumptions within the relationship between principals and agents: 1) *goal conflict exists between principals and agents*, 2) *agents are more risk averse than are principals*, and 3) *agent behaviour is difficult to monitor.*

[18] Elgie (2002:187-189) has noted that "Adverse selection refers to the situation where an employer cannot necessarily know who is best qualified for a job because of the lack of information about employees.   Moral hazard is the situation where an employer cannot know how well a person is working once they have been employed because the employer cannot observe everything the employee does"

[19] Principals have delegated their power to agents with a desire to reduce costs and to encourage competition.

In response to these problems, Holmstrom and Milgrom (1987: 303-306) suggested that principals may make a contract with agents to share the risk of moral hazard and adverse selection: this is because agents also attempt to maximise their benefits, have a propensity to shirk and to deliver only the minimum level of their duties[20].   A contract may reduce the risk of conflict between principal and agent.   Rees (1985) suggested the solution to the agent problem is to develop an incentive system under which the principal motivates the agent to achieve the principal's goals.   The incentive is built into the contract and the 'carrot and stick' approach enables the principal to control the agent's actions.

Jensen and Meckling (1976) see a link between the principal-agent problem and the wider concerns of accounting.   The design of accounting monitoring systems is set not only by the demands for information, but also by the nature of a performance-based system.   Reporting what agents are going to do gives the principal an opportunity to control.

Principal-agent theory and public choice theory are key theoretical concepts underpinning performance management.   Yet there are problems for performance management in delivering high quality social services: these include information asymmetry, transaction costs, proximity, disaggregation, marketisation, incentivisation, and principal-agent problems (Pollitt, Caulfield, Smullen and Talbot, 2004).   In terms of the relationship between resource inputs and service outputs, principal-agent problems occur in the social sector whether social

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The expectation of the principals is incurred because of several problems, such as information asymmetries, adverse selection, and moral hazard.   In response to the problems associated with delegation, principals attempt to make a contract to control agents to work efficiently, and to provide incentives to motivate them (Rees, 1985: 75; Laffont and Martimort, 2002; Moe, 1984: 754-758).

[20] Moe (1984: 763-764) points out, "Bureau heads are indeed motivated by slack." Slack is one of the most serious problems to make the bureau inefficient by needing extra control costs.   It seems bureaucratic organisations without the control of the principals is able to slacken their efforts inefficiently, causing the budget to exceed minimum costs.

organisations deliver high or low quality services. Ultimately, government is always seen as responsible, even where the services it requires are delivered by other agencies, and it is assumed that government has unfettered monopoly in social service delivery because of the impact of performance management. Thus, the roles and responsibilities of all participants in the process of decision making can be unclear, while accountabilities of stakeholders can be affected by the lack, in some cases, of the social sector ethos. Performance *measurement* may offer, in part, a solution to the principal-agent problem (Broadbent, et al, 1996: 260-266). Performance measurement refers to control that is divided into two categories: 'after-the-fact' and 'before-the-fact'. The former is government action according to the results of the agent's actions. The latter is prior government action, in the form of policy, instructions or guidance to the agent. In terms of the principal-agent theory, the principal can control the agent in the light of the agent's performance, and can request or require more information from the agent if there is a problem of information asymmetry. The principal can guide the agent 'before-the-fact', through regulation, guidelines and performance indicators, which can be set to require whatever level of performance the principal requires. Principal-agent theory deals with the contractual relationship between principals and agents. It recognises that incentives are an important tool for agents, and performance measurement is a useful means of controlling behaviour, which is why performance management focuses on performance measurement in the social sector. Through examining the contextual elements between principal-agent theory and performance measurement, it can be seen there are inherent linkages between them. For example, the principal would need not only to create effective indicators to measure the performance of the agent but also to play a greater role in the process of service delivery from input to outcome. The principal would also need to confidently represent the concepts of responsibility, accountability and trust – and be clear about the importance of these concepts in the performance measurement systems.

5.2.4 Accountability

Social accountability has become important to sustain non-trivial relationships. Social accountability encourages social organisations in enabling co-operation, reducing transaction costs, and securing value for money (Thompson, 1993: 2-3). Generally, accountability has been seen in terms of social capital and as a kind of 'social glue' binding people into cooperation. In the social sector, accountability is a major issue for governments because successful administration requires public support for policies and proposed changes. A minimum level of accountability is required to implement policy programmes. Accountability is associated with satisfaction with public services and keeping promises in the social sector (Ruscio, 1997; Audit Commission, 2003). The meaning of 'social accountability' is often seen as elusive. It depends on the factors being observed: they involve both interpersonal and institutional relationships (Dasgupta, 1988; Jennings, 1998). The literature on accountability characterises the term 'trust' in various ways. It is related to situations involving personal and organisational conflict, outcome uncertainty and problems. There is a significant difficulty in defining the meaning of accountability, and measuring the level of accountability, in particular social accountability. Even though the benefits of accountability have been weighted against its inherent weakness, the potential risks of trust bring some problems. For instance, politicians once elected are sometimes charged with thinking little of trust and the campaign commitments that were made, for example when linked with public service failings or lack of progress in areas including social services. Accountability in the social sector can be problematic because of principal-agent issues and difficulties of measurability. There are many factors that lead to the distrust of social organisations and one of them is the problem of ensuring accountability (Porte & Metlay,

1996; Lewis and Weigert, 1985).

5.2.5 Trust

The role of trust within social sector organisations has long been important to meeting and maintaining their visible or invisible contract. Williamson (1993) distinguishes three categories of trust: calculative trust, personal trust and institutional trust. Calculative trust, an economic view, is about outcomes generated by the relationship between agents. It implies there are costs and benefits, a commercial relationship between the parties. Personal trust is different from calculative trust and commercial relations. It is viewed as a discrete category and implies there are special personal relations. Institutional trust is a social and organisational relationship according to contract. More comprehensively, the term trust has been viewed as a property of collective units that involve 'cognitive, affective and behavioural dimensions' (Lewis & Weigert, 1985; Kim, 2005: 618). Thus, trust can be seen both from an individual, and from internal and external organisational environment perspectives. It is associated with individual behaviour and organisational functions, and is a key factor in improving performance in public management. A summary of definitions is given in Table 5.2.

Based on the importance of building trust, there are some key factors to increase the level of trust among all social sector organisations. Firstly, participation in decision making is regarded as a key to building trust in the social sector. It is strongly associated with democracy. In terms of the internal relationship of social organisations, the bureaucracy works as a closed model, in which the employee is treated as a resource. On the other hand, participation in the decision making process is said to give rise to significant positive benefits

(Nyhan, 2000; Sashkin, 1984; Nachmias, 1985; Argyris, 1964). Denhardt (1993) notes a link between participation and performance: employees are able to reach a higher level of performance when supervisors encourage the participation of subordinates. Sashkin (1984: 11) says that 'participative management has positive effects on performance, productivity, and employee satisfaction because it fulfils the three basic human needs: increased autonomy, increased meaningfulness and decreased isolation'. Secondly, empowerment is associated with organisational effectiveness (Block, 1988; Barnes, 1981; Bowen & Lawler, 1992; Navran, 1992). Empowerment fosters trust, and helps to improve organisational productivity. It shows the need to combine the sharing of information on performance with cooperative participation in making decisions (Denhardt, 1993). Sharing information is a significant dimension in social organisation effectiveness (Pritchard, Jones, Roth, Stuebing and Ekeberg, 1988). An approach based on trust leads to better designed information systems. Financial, non-financial and non-numerical indicators can give valuable information to make better organisational performance (Brewer and Speh, 2000; Chan, 2003). Sharing performance information is also helpful to integrate inter-organisational processes (Hammer, 2001). For instance, Lohman et al (2004) note that a performance measurement system can help to create the right approach in public service delivery through relating evaluated performance (comparison) to goals (planning).

Figure 5-1   Key influences on trust
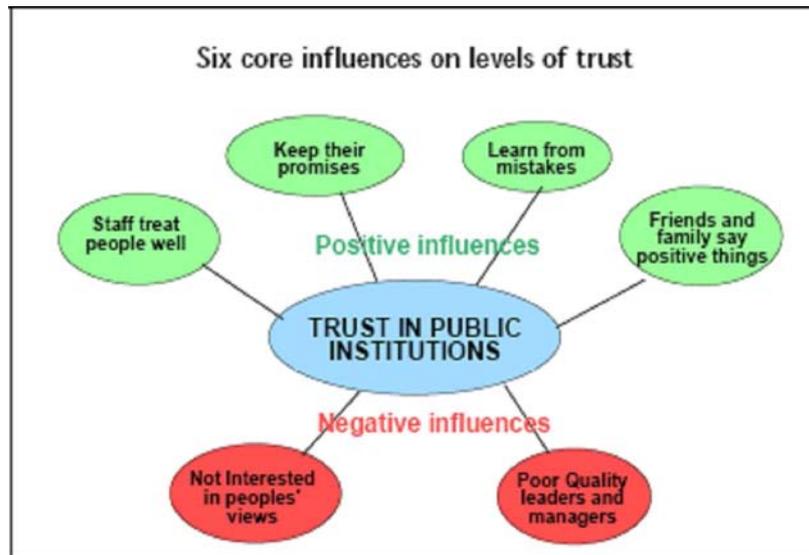
Source: Audit Commission (2003: 17)

Figure 5-1 shows that treating staff well, keeping commitments, learning from mistakes and obtaining positive views from friends and family can have a beneficial influence on trust. On the other hand, poor quality leaders and managers and not being interested in people's views have a negative effect.

Trust is fragile.   It is much easier to destroy than to build trust in organisations.   In a mistrusting environment, the public cannot believe the government, and this affects government attempts to control public-funded organisations.   Moreover, social organisations may hoard information to safeguard their interests.   This means government may need to introduce more strict control systems, which may create further suspicion and mistrust.   A control system grounded in trust is likely to be much more effective because trust helps to reduce costs and to adapt more readily to change.   It is a vicious circle and a case of which came first the chicken (trust) or the egg (effective systems).   Generally, it is recognised that trust can have positive impacts on performance and organisational culture.   It can reduce

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transaction costs through helping to create an effective performance strategy (Ouchi, 1981; Savage, 1982; Peters & Waterman, 1982; Odom, Boxx & Dunn, 1990; Pascale & Athos, 1981).

Table 5-2   A Review of the Definitions of Trust

Authors	Definition
Berman (1996)	Belief in the ability and good intentions of someone or something to perform
Bulter (1999)	Willingness to risk increasing one's vulnerability to a person whose behaviour is beyond one's control
Gambetta (1998)	The probability that [a person] will perform an action that is beneficial or at least not detrimental to us is high enough for us to consider engaging in some form of cooperation with [the person]
Golembiewski and McConkie (1975)	An expectation about outcomes based on perceptions and life experiences
Wuthnow (1998)	A rational assessment of someone's performance in the past and the likelihood that the future would hold similar performances by that person or by similar persons
Matthai (1989)	Trust is defined as the employees' feelings of confidence that, when faced with an uncertain or risky situation, the organisation's words and behaviour are consistent, and are meant to be helpful.
Griffin (1967)	Trust is a reliance on the behaviour of a person in to achieve a desired but uncertain objective in a risky situation.
Kim (2005)	Trust is a cognitive decision by individuals who are willing to grant discretion based on their evaluative beliefs. It also demonstrates an emotional attachment by those who are in the trust relationship.
Luhmann (1979)	Trust represents the level of confidence one has in another to act in a fair, ethical, and predictable manner.
Carnevale (1995)	A faith in people their motivations and their capacities.

Source: After Kim (2005: 619)

5.2.6 Game Theory

Game theory is a kind of applied mathematics methodology, a practical concept based on rational assumptions that combine conflict and cooperation. The assumptions are that agents maximise their own self-interest with unlimited cognitive and computational capacities under conditions of complete information. A game is a description of a strategic situation in which several players are interdependent. It has to consist of at least two players; a game with only one player is a decision problem. The concept of a game has become more visible through mathematics methodologies. The concept is well-suited to show the conflicting conditions of players. Each player is assumed to maximise their utility and all players want to get utility from the game. According to Turocy & Stengel (2001: 5), 'game theory is the formal study of decision-making where several players must make choices that potentially affect the interests of the other players.' Mackenzie and Wicker (2001: 126-127) said that game theory can be applied to various areas. A game consists of three basic elements: 'A description of strategic interaction; a set of constraints on the actions the players can take; and a specification of the interests of the players'. Game theory, like all variants of rational-choice theory, starts by assuming theoretic concepts. A game is one method of analysing the actions of several players who may be individuals, groups, or organisations. Ostrom et al (1994: 51) suggest that every game has seven basic components as follows: (1) a set of players, (2) a set of positions, (3) sets of actions assigned to positions at choice nodes including chance moves, (4) a decision function that maps choices into intermediate or final outcomes, (5) the kind of information available at a node, and (7) payoffs based on benefits and costs of actions and outcomes. In saying this, Scharpf (1997:7) suggests that game theory comprises the three fundamental concepts: 'players',

'strategies' and 'payoff'.

> The concept of *player* may apply to any individual or composite actor that is assumed to be capable of making purposeful choices among alternative courses of action; *strategies* are the courses of action (or sequences of moves) available to a player. A game exists if these courses of action are in fact interdependent, so that the outcome achieved will be affected by the choices of both players. The third fundamental concept, *payoffs*, represents the valuation of a given set of possible outcomes by the preferences of the players involved (Scharpf, 1997: 7).

Game theory can be used to explain the behaviour of several players in terms of maximising their benefits at Nash equilibrium. The game is associated with rational expectations. If every player makes their choice according to their particular equilibrium, then the maximised benefit of each player will be in the Nash equilibrium in which the rational expectation of each player is fulfilled, and the choices are the best. Game theory is associated with an interactive situation between players.

Performance measurement is a subject of practical importance to various stakeholders involved in social association management. Performance measurement for housing providers, regulators and funders offers performance information for decision making and housing management. A relevant example is that of a simple scenario, where a hypothetical two-player game is expected between a regulatory organisation and a housing association.

5.3 Discussion of the theory approach for this thesis

5.3.1 Perspectives from the theories

Performance measurement in the social housing sector in England has been a common managerial practice for a long time. It is applied in both local authorities and housing associations, although, as noted already, the discussion in this thesis focuses on the housing association sector, where performance measurement was introduced mainly for the purposes of control and reporting within and outside a housing association. At first, the main attention was given to financial performance but the present-day approach is also about strategic plans, accountability, value for money and tenants' satisfaction. Performance measurement has evolved from its traditional monitoring role to become a managerial framework for improving performance and creating a new type of social accountability.

> Performance measurement and performance indicators represent one tool of this rationality. Through their use, control is exerted all the way down from the centre of government to the street-level of service delivery – through all aspects of policy, programme and service delivery. Under the new conditions of service delivery, [housing] workers are increasingly required to demonstrate efficiencies and effectiveness in predetermined terms to governments and third-party purchasers of their services. Performance measurement creates [housing] practice in that it determines which specific forms of practice are drawn into the framework of accountability (Mcdonald, 2006: 27).

Theorising the impact of performance measurement in the social housing sector requires an understanding of the nature and extent of the various purposes of performance measurement from control, through managerial support, to accountability. This thesis needs to explain theoretically the diverse purposes in the social housing sector. Rouwelaar (2007: 27) points out that 'there is no one 'best' design for a measurement system, but it all depends upon the situational factors'. In this thesis, four main theoretical viewpoints have been described in general and in relation to performance measurement. These theories provide a multi-faced

understanding of performance measurement.   They focus mainly on the nature and purposes of performance measurement that could be used to control housing associations and to improve social accountability.   At this point, a framework grounded in theoretical knowledge of performance measurement is important to bridge these theories to relevant practice.   In considering three main constructs, there are, as with research perspectives in general, a number of viewpoints from which to focus on these theories as shown in Figure 5-2:

Figure 5-2   Conceptualising theories
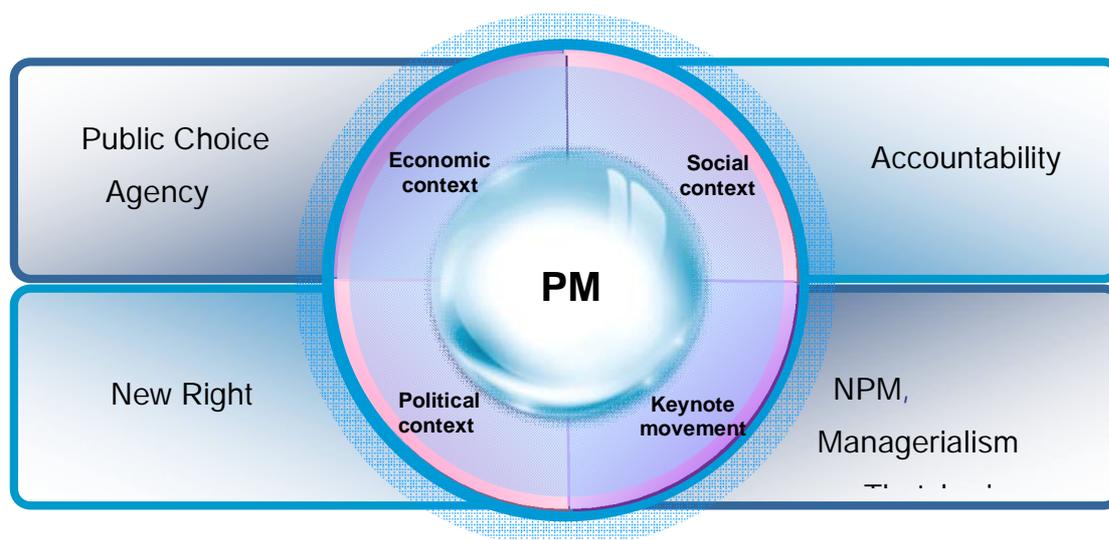
Source: Summarised by Author

Performance measurement has some negative effects when it comes to measuring organisations in the social housing sector.   Performance measurement has been used as a strategic control system to influence organisations' goals (Neely, 1995).   The reasons for the introduction of performance measurement can be classified in three main categories. Theoretical approaches to the social housing sector can be undertaken at a variety of levels. Over the last decade there have been a considerable number of theories about the reason for

performance measurement in the public sector. The previous sections have explained a number of theories that are associated with the four perspectives that provide a framework for the study of performance management. The four perspectives (Figure 5.2) are: the economic viewpoint, the social viewpoint, the political viewpoint and key performance movements. Different theories suggest different research perspectives. It is important to outline the contribution of the theoretical perspectives within a research framework. In this way, it is possible to identify three broad levels of theoretical background to the social housing sector.

5.3.2 Theoretical framework

Relevant theories to understand performance measurement in the social housing sector include public choice theory, principal agent theory, and game theory from the economic viewpoint; accountability and trust from the social viewpoint; and new right ideology from the political viewpoint. Further, in terms of key managerial movements including NPM and Thatcherism, this thesis explores the background to the introduction of the performance measurement system in the social housing sector.

The four viewpoints can explain the role stances of performance measurement - control and social viewpoints - and the relationship between regulatory organisations and housing associations. Control is determined by interactions between organisations in an exchange relationship, and the concept of control is only meaningful when compared with power. The aim of the social viewpoint is to explain interactions between players in terms of accountability and trust. The term 'trust' means trustable for what, and trustable by whom? To develop the theoretical framework for the research, the control and social contexts are

integrated as shown in Figure 5.3.

Figure 5-3   Theories of the research framework
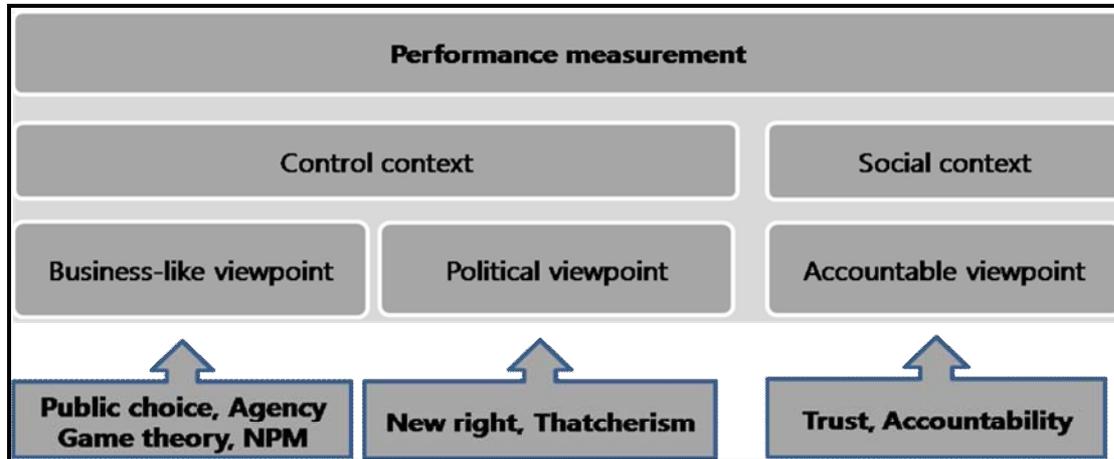
Source: Summarised by Author

In order to capture the two main contexts related to the roles of performance measurement, each context is characterised by relevant theories.   The control context has two separate viewpoints: the business-like and the political viewpoints.   These viewpoints are different, but have specific common aspects in their use of control.   The social context is characterised by accountability and trust theories.   In order to build the theoretical framework, for each viewpoint one or more key theories are added.   The theoretical framework aims to be a bridge between the research questions in this thesis and these theoretical concepts.

The agency (or principal-agent) theory, game theory and public choice theory, have focused on performance, performance information, efficiency and interactions between participants. Though not designed specifically for this purpose, these theories can be used to explain performance measurement in terms of an economic (or business-like) viewpoint, and there are various researchers who have discussed the reason for performance measurement in terms

of the allocation of resources or information in the social housing sector (Buchanan, 1993: 67-8; Brennan and Buchanan, 1985: 51; Niskanen, 1993: 151; Orchard and Stretton, 1997).

The political concepts have focused on reducing the extent and sometimes the scope of public expenditure, but the main role of government is to monitor the process and assess the results of public-funded service delivery. The political viewpoint can explain reasons for performance measurement in terms of central government intervention and decentralisation. The rise in the importance of performance measurement has influenced the circumstances in which housing associations have been required to demonstrate their performance, based on the 3Es, to the Housing Corporation. The centrally designed public reforms were the driving force for the growing emphasis on performance monitoring, business-like approaches and social accountability. Accountability is grounded in how and to whom housing associations account for their managerial and social performance. Key performance movements aim to explain the background to the introduction of performance measurement in the social housing sector. New Public Management has inspired social practices related to emphasising the 3Es, a new type of central control and performance measurement. Without doubt, performance measurement can be 'one main example of a range of processes operating within the discursive formation of New Public Management' (McDoland, 2006: 25).

The economic and political theories in this thesis have been used by economists as a theoretical underpinning for the control viewpoint, but the theories have not sufficiently explained the social effects of performance measurement on relationships among social organisations. To view the social housing sector in economic terms is problematic because these are not the pivotal values that characterise the sector and its history. Housing associations do not focus on economic values only, but on social, moral and ethical values as

well. Furthermore, with the present emphasis on performance, efficiency and effectiveness in public management in Britain, housing associations have been required to demonstrate their performance and their social accountability to central government, regulatory organisations and the public.

In terms of the social context, two key mechanisms, trust and social accountability, can explain the interaction between the regulatory organisations and housing associations. The 'trust' theory is considered here in terms of the social context as it relates to the rational changes of organisational stance emanating from performance measurement. The rational theory, trust, focuses on organisational changes in the sphere of housing associations. Government and public expectations of accountability have increased. Being seen as 'trustable' for social service delivery has evolved into a performance measurement environment that requires associations to meet the information requirements of various organisations with interests and responsibilities in the social sector. Briefly, accountability and control issues in the housing sector have become important in recent years. Performance measurement is part of the pressure for more accountability and the need to 'perform' has put pressure on organisations and staff in housing associations so that performance measurement can be seen to have both positive and negative effects. Later chapters will look at each of the approaches in the context of the case study housing associations, to see the extent to which performance measurement reflects state intervention and accountability in housing associations.

5.3.3 Recognising the limits of the theoretical framework

A number of researchers have emphasised that the key role of performance measurement is to

help improve performance (Power, 1997; Hood et al, 1998; Micheli and Kennerley, 2007: 2). However, the connection between regulatory organisations and housing associations can be sensitive. Relations are sometimes complicated and defensive. A theoretical framework, however robust, cannot always encompass and reflect such complexity and sensitivities. In this particular case, some possible shortcomings are:

- At the micro-level, the economic theory, public choice theory, is not enough to allow an adequate account of performance measurement in practice. The theory is related to inter-individual processes, individual exchanges and is derived from neoclassical economic theory. For instance, public choice theory fits with deregulation and privatisation, but has no concept of good government and public regulation.

- At the macro-level, the explanation of the changing role of government according to the new right political theory, is implicit and ambiguous. The theory has exerted a disproportionate influence on performance measurement.

- These two theories, although both employ a broad definition of performance management, give little attention to co-ooperation within and between government and other non-profit organisations.

- The model is useful to explain the importance of performance but cannot explain variations between policy areas, as in public-private partnership, governance, and joined-up government.

Despite these apparent weaknesses the framework has some important general lessons for the description, analysis and explanation of performance measurement.

5.4 Concluding comments

This chapter provides the theoretical background to the thesis. It has explored theories related to performance management, including some of the broader perspectives. Theory is necessary to explore core concepts, though there are no specific theories that have been developed with performance management in mind. A starting point, however, is the idea that performance management in the public sector comes from the introduction of the principles, values and practices of the private sector, yet from a management theory perspective, performance management issues are not easily defined.

The theories reviewed in this chapter include public choice, the principal-agent theory, accountability, trust, public partnership and game theory. The public choice theory has influenced the espousal of the market mechanism in political debate and policy. The relationship between regulatory and regulated organisations is illuminated through principal-agent theory, and by the model of accountability and trust. The relationship between principals and agents often takes a contractual or quasi-contractual form, as seen in the relationship between the Housing Corporation and housing associations in the social housing sector. The concept of the social context, on the other hand, helps us to understand that partnership, based on accountability and trust, can be important in binding social sector organisations to meet and maintain their visible or invisible contracts with each other. Game theory helps us to understand how and why 'players', meaning any individuals or corporate actors, behave in self-interested ways.

In these ways, the chapter has focused on key theories related to public management to describe a varied combination of social and economic ideas. It has sought to explain how

performance management has been shaped in terms of theoretical backgrounds; and to examine literature and theory to conceptualise performance management in England.

CHAPTER 6 RESEARCH METHODOLOGY

6.1 Introduction

This chapter presents and discusses the methods used in this research. It includes a discussion of broad methodological considerations, and gives an account of the specific research methods used in this study. The research process consists of four phases as shown in Table 6-1:

Table 6-1   Research methodology process

Research issue	Analytical consideration
Phase 1 The researcher as a multicultural subject	History and researcher traditions, conceptions of self and the other, ethics of researcher
Phase 2 Designing research questions	Perspectives from the literature reviews. Research questions of this thesis.
Phase 3 Research design	Study design, qualitative methodology and analytical paradigms based on the control and social viewpoints, and key movements.
Phase 4 Philosophical foundation, case study choice and methods of data collection	Case study method, case criteria, case choice, interview, documents, and records, census data, textual analysis.

This chapter has four sections: the researcher, research questions, the research design, and data collection.

6.2 The researcher as subject

A number of factors have influenced the research presented in this thesis. In particular, the character, conception and experience of the researcher are significant influences. This

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section considers the role of the researcher in the research process. A case study approach was adopted, requiring dialogue between the researcher and housing associations, rather than wholly desk-based study. It is to be expected, then, that the characteristics of the researcher in terms of nationality, gender and cultural background will have had an effect on the interviews. As Punch (1998: 84) mentions, the personal perception of the researcher is central to an understanding of the results from their field work.

> There is here too an absolutely central point that much field research is dependent on one person's perception of the field situation at a given point in time, that that perception is shaped both by personality and by the nature of the interaction with the researched, and that this makes the researcher his or her own research instrument (Punch, 1998: 84).

Qualitative research is affected by, among other things, the personality of the researcher, the nature of the interaction with others taking part in the fieldwork, and the personal relationships between the researcher and those researched. The researcher as subject is a major factor in the process of qualitative research, especially relating to the inter-personal, moral and ethical aspects of the study (Punch, 1997: 88). Thus, it is important to define the position of the researcher because, for a number of reasons, the researcher's personal circumstances will have had a major influence on this research.

The researcher is a full-time PhD student in the School of Public Policy at the University of Birmingham, with an interest in the relationship between central and local government, and in performance measurement, governance, and housing and performance management. The researcher's academic background is in urban and local government studies. The researcher's starting point for this study was the assumption that performance management

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has both positive and negative effects on the performance of public and social service delivery, and on the relationship between central and local government. This position has been influenced inevitably by the researcher's circumstances and career as a full-time student. The researcher is from South Korea and chose to study in the UK on a research topic about public policy in England. The 'outsider' position has influenced the case studies that seek to draw lessons from English experiences. These factors bring a special perspective but may be seen also as limiting the researcher's role. There are also limitations caused by the time available for the research which affects both the breadth and the depth of the study. The scope of the research is determined partly by these factors.

The design and nature of the study required interaction between the researcher and interviewees. Denzin and Lincoln (1997: 12) mention that qualitative study is dependent on inter-personal relationships and the researcher's perception of the field situation. Qualitative research, notwithstanding its attractions, also has limitations and both will be discussed later in the chapter.

6.3 Designing research questions

This section highlights issues from the reviews of academic and policy literature, and identifies some key research questions. The aim is to draw the research questions from the core part of the literature reviews relevant to performance measurement systems in the social housing sector in England.

6.3.1 Perspectives from the literature reviews

Chapter 2 analysed performance measurement as a significant part of performance

management and Chapter 3 looked at housing policy and housing associations. Chapter 4 reviewed performance measurement in the social housing sector in England, dealing particularly with the performance of housing associations. Chapter 5 reviewed and discussed the theoretical perspectives relevant to the discourse of performance management and proposed a theoretical framework for this research.

The thesis so far has highlighted the performance measurement framework which is composed of four main constructs: the reasons for performance measurement, the objectives of performance measurement, the factors influencing the development of performance measurement and the changing approaches of performance measurement.

Reasons for the introduction of performance measurement

A central focus of this thesis is the interface between housing associations and regulatory organisations in performance measurement, in the context of regulation and self-management. Performance measurement is historically considered as a regulatory tool for the state (Pollitt and Bouckaert, 2002) but housing associations also need to measure performance as a practical managerial tool to make better management decisions and deliver good services. Performance measurement for internal management and external regulation can be compatible, even though the two have different objectives. Since these objectives co-exist, an important question should be asked here. Can both regulatory and self-management needs be managed and implemented together in the social housing sector? And why do the principal players in the social housing sector need performance measurement? Chapter 4 has shown that the two main players need it for different reasons: firstly, housing associations need it for practical management and secondly, regulatory organisations, the Audit

Commission and the Housing Corporation, need it to evaluate the results of the housing associations' self-assessment, as part of their responsibilities for monitoring the work of housing associations.

Objectives of performance measurement

A number of academic commentators (Mullins and Murie, 2006; Cooper, 1990; Gibb, Munro and Satsangi, 1999; Chapman, 2005) agree on the significant role of performance measurement in the social service delivery process and Cooper (1990) notes that inspection has been important in the management of social housing by housing associations. The Audit Commission (1998: 10) also notes that 'audit and inspection have a key role to play in giving local people, and central government, a clear idea of whether best value is being obtained'.

Through the literature review, a framework has been devised for analysing the objectives of performance measurement (Table 6-2).

Table 6-2   The objectives of performance measurement

Performance measurement is an essential element in performance management to secure continuous improvement in social services and clarifies the outputs and outcomes that are achieved for the resources used makes it easier to hold organisations accountable (Audit Commission, 2000: 12).

Control context	Management context	Social context
•Political viewpoint •Legitimacy •Regulation	•Business-like viewpoint •Managerial tool	•Managerial accountability •Legal accountability •Social accountability

Constructive performance measurement

Table 6-2 shows the three contexts for performance measurement: the external objective (control), the internal objective (management), and the mixed objective (the social context). These contexts provide a framework for the viewpoints on and purposes of performance measurement, as shown in the Table. Rouwelaar (2007: 3) points out how the role of performance measurement has changed from that of 'bean counter' to 'business support'. Performance measurement now is part of a system in a managerial cycle, which includes 'presenting information and analysis, recommending action and challenging plans and actions of operating executives' (Sathe, 1982: 10). It is also used (Burgess, Propper and Wilson, 2002: 5) to improve accountability in the social sector, and (Micheli and Kennerley, 2007: 2) to push social organisations to modernise programmes and demonstrate value for taxpayers' money in terms of accountability. Clearly, these aims are process impacts, which are

supposed to lead both to improved performance and accountability, or increasing regulation. Taken together, these impacts have led to what in effect is constructive auditing, in which the integration of the measurement aims has been a common objective. Therefore, this research should seek to analyse the objectives of performance measurement in the social housing sector, especially in relation to the control, management and social contexts.

Factors shaping performance measurement

According to the literature discussed in previous chapters, the development of performance measurement centres on three factors: institutional, behavioural, and performance culture. These factors have shaped the development of performance measurement.

- Institutional factors: these consist mainly of a concrete system, typified by its continuity and by adequate resources. Sustained support over time is essential, based on the assumption that '*providing a comprehensive and concrete set of performance measurement systems positively influences the development of performance measurement*'.

- Behavioural factors: within housing associations, the behavioural factor is seen to facilitate the development of performance measurement. It is exemplified by positive managerial attitudes (interactive and frequent cooperation) and behaviour (spontaneity, empathy and a sense of responsibility for organisational targets). These influence an organisation's performance management ability. and are grounded in the assumption that '*the development of performance measurement is positively associated with staff behaviour in the process*'.

- Performance culture factors: the build-up of a performance culture within organisations influences the development of performance measurement by encouraging greater attention to what performance measurement can bring to the organisation and its clients. This factor assumes that '*the ability to build performance culture positively influences the development of performance measurement*'.

Performance measurement approach

One of the concerns of this research is with the changing role of performance measurement, including the scope of interactions between the regulatory and the regulated organisations; the consequences of accountability; and the growing importance attached to performance information. To explore these issues, the two main contexts of performance measurement, namely the control context and the social context can be described by terms which characterise the different roles of performance measurement in the social housing sector (Table 6-3).

Table 6-3   The role stance of performance measurement in the social housing sector

		Control context	
		Businesslike	Political
Social context	Low	Capturing role	Ammunition role
	High	Managing role	Answering role

Four role stances are identified at different levels of the relationships in a social-control matrix. These are the capturing role, the ammunition role, the managing role and the

answering role.   Briefly, these contexts and roles can be described as follows:

- Social context: collaborative and sustainable relationship, trust and accountability.

- Control context: regulation and responsibility.

  - Ammunition role: to control housing associations more politically.

  - Capturing role: to check housing association financial outputs.

  - Answering role: to report outputs to regulators.

  - Managing role: to consider social and managerial values.

Each role will be looked at specifically in the case study housing associations.   It is hoped this will enable the empirical study, grounded in the macro-impact of performance measurement, including state intervention and accountability, to explain the extent to which performance measurement, within the selected housing associations, accounts for changes in the organisations and among their staff.

Finally, the two contexts of performance measurement, the control context and the social context, will be examined in the case studies, with reference to a number of important points arising from the literature review:

- The need to identify and explore conflicts that may exist between regulatory and regulated organisations in their respective need for performance measurement in the social housing sector;

- How performance information is used by the two types of organisation;

- The need to extend analysis beyond the organisations to identify factors influencing the development of performance measurement, e.g. institutional, behavioural and performance culture factors;

- Analysis of the changing approaches of performance measurement within the social housing sector.

These and other issues can be summarised as follows and in the next section will be developed as the principal questions for the research:

- the reasons for the introduction of performance measurement;

- the use of performance measurement information;

- the factors influencing the development of performance measurement; and

- the approaches of performance measurement,

6.3.2 Research questions

This section sets out four research questions that are grounded in the preceding review of literature and policy. The starting point is to ask why and how housing associations engage in performance measurement; and in what ways performance management has been developed.

There are four broad categories of research questions (Table 6-4).

Table 6-4   Research question categories

Research question category and the aims of this research	Relevant analytical issues based on the question category and the aims of this research
Contextual: Identifying the reasons for performance measurement in housing	• Examining the situation of housing associations • Identifying the reasons why and how performance measurement is being used in the social housing sector • Identifying the type of performance measurement in England
Strategic: Examining how performance information is used in the social housing sector	• Examining how performance information is used by housing associations in England • Identifying the purposes of performance measurement for housing associations and their regulatory organisations
Examinable: Appraising the factors influencing performance measurement in the social housing sector	• Factors influencing performance management • Is social housing reform imperative? • Examining the changes within housing associations (organisation and staff) attributable to performance management
Evaluative: Evaluating the approaches of performance measurement	• Identifying the strategies and approaches of regulatory performance measurement systems in making the social housing sector more effective, or to innovate • Examining how performance management in English social housing may be changed

As Table 6-4 shows, each category of question (contextual, strategic, examinable and evaluative) has a number of issues for analysis, related to the question category and the aims of the research.   The process through which the four research topics have been identified is shown in Table 6-5.

Table 6-5   Systematic process

Research topics	Reasons for performance measurement	Using performance information	Factors influencing the development of performance measurement	The changes resulting from performance measurement
Strategy to identify evidence	Literature review (Journals, Census data, secondary data, Government reports) Interviews.			
Criteria to select evidence	Main field: performance measurement system in housing associations. Case studies: Midland Heart and Castle Vale Community Housing Association Main topic: Understanding PM in the social housing sector Research methodology: descriptive and empirical research			

The main sources of evidence are the review of relevant academic and policy literature; and interviews to be conducted with case study associations, which form the subject of the three following chapters.

The main points to re-emphasise here are that the research questions have been developed with a view to understanding the causes, processes and implications of performance measurement in housing associations in England.   Principally, how can one account for the growing importance of performance management, and the changing approaches of performance measurement in housing associations since the time of the first Thatcher government in 1979?

The research questions are:

- Why do social housing organisations measure their performance? ;

- How is performance information used? ;

- What factors influence the development of performance measurement?; and

- What has the performance measurement approach changed in the housing association sector?

Why are these questions important? As Mullins and Murie state (2006: 240), inspection has increased in the social housing sector. According to the literature review, measuring the performance of social service organisations has become an important part of national activities to reform the social housing sector (Lapsley, 1999:201). Performance measurement is a key element in performance management (Pollitt and Bouckaert, 2000:86). Performance measurement has become more '*extensive, intensive and external*' (Bouckaert, 1996:234). From these perspectives, performance measurement is an appropriate and still under-researched topic for study in the social housing sector. The research questions are explored through an examination of policy discourses, interview data and other evidence.

6.4 Research design

6.4.1 Qualitative research approach

This study makes extensive use of qualitative research methods, both in analysing the influence of performance management in the social housing sector and, specifically, in the case studies that follow this chapter. Some researchers see quantitative and qualitative methods as 'two sides of the same coin' and argue that both have their place within contemporary social science research. Others, however, take a different view:

Quantitative and qualitative methods are more than just differences between research strategies and data collection procedures. These approaches represent fundamentally different epistemological frameworks for conceptualising the nature of knowing, social reality, and procedures for comprehending these

phenomena (Filstead, 1979: 45)

Quantitative research is grounded in the evidence of observation and technical procedures such as statistical analysis. In qualitative research, with its different evidence base, there can be a difficulty of generalising from the results, which is one of the reasons why a qualitative research framework may be criticised by quantitative researchers. On the other hand, quantitative approaches are criticised by some philosophers of science. Harre (1986: 102-103) notes that a quantitative methodological approach based on positivism fails to give adequate recognition to particular scientific theories of hypothetical entities. Qualitative methods have been applied by social scientists for both underlying philosophical background and the investigation of social reality. The characteristic of qualitative research is 'its express commitment to viewing events, action, norms, [and] values from the perspective of the people who are being studied' (Bryman, 2006: 61). Denhardt (1993) said that the perspectives of the people being studied can often be the best way to understand complex issues in social science. Qualitative methodology in particular is suitable when there is a prior set of assumptions about the study of social reality.

The main method of qualitative research is participant observation to describe and analyse the culture and behaviour of individuals and groups from the point of view of the participant observer(s). This approach applies also to the use of unstructured interviews in qualitative research, which is different to the use of structured large scale, statistically determined sample surveys. However, neither unstructured nor structured interviews can expect to observe all relevant situations and processes and this is recognised as one of the limitations of qualitative research (Bryman, 2006: 72).

The case studies that follow are designed to examine how performance measurement is implemented in housing associations in Birmingham. A qualitative research strategy is appropriate for such studies of the relationships of organisations within a system.

6.5 Methodology

6.5.1 Case study methodology

As a multi-perspective method, case study enables empirical studies through in-depth investigation (Feagin, Orum and Sjoberg, 1991). The viewpoint of a researcher brings out the details from the examined cases through emphasising contextual analysis. Although dealing with a limited number of events or cases, case studies can consider not just the cases themselves, but also the groups to which they belong and the relationships between the cases. Case studies have been used to demonstrate whole situations and to describe phenomena (Davis and Bachor, 1999). To understand complex and dynamic phenomena, such as public policy, participation and governance, case study research can be used as a set of tools for the investigation. Tellis (1997: 2) argues that 'case study research is not sampling research, but case studies tend to be selective, focusing on one or two issues that are fundamental to understanding the system being examined'. Further, Yin (1994) argues that 'case study does not represent a sample, because in doing a case study, the researcher's goal is to expand and generalise theories and not to enumerate frequencies'. Yin (1994) has identified four applications for case study research:

- To explain complex causal links in real-life interventions
- To describe the real-life context in which the intervention has occurred
- To describe the intervention itself

- To explore those situations in which the intervention being evaluated has no clear set of outcomes.

These four applications are not necessary in every case study, but all of them can be productive in case study research.

6.5.2 Case study criteria

A more 'hands-on' approach is needed to test a range of approaches in diverse contexts with different types of organisations.   The most important challenge is to promote, through case studies, a systematic application of the methodologies on impact assessment (Roche, 1999: 5; Hopkins, 1995).

The criteria for case studies are grounded in the research questions and the analytical framework.   Case studies should be selected according to some basic similarities, for example, in this study, because they are housing associations.   They should also have individual characteristics, such as location, size and type of housing association.   The issues for analysis can then be related to a variety of contexts affecting each case study association (Table 6-6).

Table 6-6   Categories of case study variables

Context	Issues for analysis
National context	The political and administrative structures, and national housing systems
Regional context	The influence of regional governments
Structural context	Differences modes of housing associations, spatial structures and cultural traditions
Economic context	Variations in relative prosperity and underlying social housing stocks
Spatial context	Different geographical settings relative to integration processes-core and periphery

Source: Barber, 2004:132

6.5.3 Case study choice

Starting with the national context, the whole of this study can be regarded as a case study of Britain, in particular England. It is one of the larger states within the EU –and is characterised by a distinctive housing system, especially in the social housing sector. England, as part of Britain, is a highly developed country with an urban system and a social housing sector that has similarities to but also many differences from social housing in other parts of the UK. Before the housing policy changes of the early 1980s, local authorities in England were significant providers in the social housing sector but now housing associations have become much more important housing providers than they once were.

To reflect a regional context, it was decided to select a city from Britain. The two housing associations chosen for the case studies are located in Birmingham, a city in the West Midlands region of England. With a population of 977,100 (Audit Commission, 2004) and a City Council with 120 elected members, Birmingham is the largest all-purpose local authority in Britain. It is controlled by a Conservative and Liberal Democrat 'alliance'.

The two Birmingham-based housing associations selected as case studies are Midland Heart Housing Association (MH) and Castle Vale Community Housing Association (CVCHA). In view of the wider interest in using performance measurement systems, the two housing associations were considered to be good cases because both have a good reputation and they or their predecessor associations have performed well in regulation and inspection. The two housing associations have good experiences in performance management, but have distinctive differences in their organisational background. Each has a distinct history and organisational structure; one is much larger than the other, and the geographical coverage of

their activities is also distinct.   Moreover, market approaches have been strongly embedded in the merger-type housing association, Midland Heart, while social approaches typify community decision-making in CVCHA as a community-based housing association.   These characteristics are analysed more fully in subsequent chapters.

6.5.4 Data collection methods

As discussed earlier, data collection methods in the study are mainly qualitative, but some quantitative data are also used.   Yin (1994) specifies six data collection methods for case study research: documentation, archival records, interviews, direct observation, participant observation, and physical artifacts.   He noted that the use of each these primary sources might require different skills from the researcher.   This study uses multiple sources in the data collection process, as shown in Table 6-7:

Table 6-7   Research questions and data gathering methods

Research	Method		
	Documentary Analysis	Interview	Archival record
Why do social housing organisations measure their performance?	V		
How is performance information used?	V	V	V
What factors influence the development of performance measurement?	V	V	V
What has the performance measurement approach changed the housing association sector?	V	V	V

Not all sources are essential in every case study and this is the approach that has been

followed here.   The strengths and weaknesses of the three sources used are summarised in Table 6-8.

Table 6-8   Type of evidence: strengths and weaknesses

Source of evidence	Strengths	Weaknesses
Documentation	• Stable-repeated review • Unobtrusive-exist prior to case study • Exact-names etc. • Broad coverage-extended time span	• retrievability-difficult • biased selectivity • reporting bias-reflects author bias • access-may be blocked
Archival records	• same as above • precise and quantitative	• same as above • privacy might inhibit access
Interviews	• targeted-focus on case study topic • insightful-provides perceived causal inferences	• bias due to poor questions • response bias • incomplete recollection • reflexivity-interviewee expresses what interviewer wants to hear

Source: Yin (1994: 80)

This research has collected important data and sources of case study information through a variety of methods, such as documentary analysis, interview and archival record review. The literature search has provided secondary data from documents, including government documents, reports and online material.   For the case studies, primary data were collected from personal interviews with key people in the case study associations.   The interview approaches were developed through discussion and pilot interviews with staff involved in housing associations, including staff in CURS.   To emphasise what was discussed previously, these interviews are

Conversations with structure and purpose…the basic subject matter is not

objective data to be quantified but meaningful relations to be interpreted (Kvale,

1996: 11)

Ideally, conducting interviews with key staff working for regulatory organisations and government officers can provide an important source of data because the autonomy of housing associations is restricted (Bortel and Mullins, 2009). It is also important to keep a balance between regulatory organisations and housing associations because regulatory approaches have been strongly embedded in the English social housing sector. In practice, however, time and resources were insufficient to enable interviews with the regulatory organisations. To compensate for this limitation, the research used various documents. Many public documents are available on internet websites, such as government papers, reports, and statistics, including performance reports. These include publications of the Audit Commission and the Housing Corporation. Archival records are available on the internet and include housing and performance statistics from the Housing Corporation, local authorities and housing associations. This thesis analyses publications such as the Housing Corporation's assessments and the Audit Commission's public inspection reports. Other public documents examined were from the DCLG and the NHF. The thesis also draws on a range of performance data gathered through the Continuous Recording System (CORE) and on statistics from the Housing Corporation website.

The most important sources of information on the case study associations are the interviews. These were conducted through the use of topic guides, and different guides were used depending on the position or role of the person being interviewed. The list of interviewees is as follows:

Table 6-9   List of Interviewees

Housing Association	Level	Position	Time	Place	How long	How often
Midland Heart	Front Line	Continuous Business Improvement	May 2008	Midland Heart	14:00 – 15:30	1
Midland Heart	Manager Level	Performance Manager	May 2008	Midland Heart	14:00– 15:30	1
Midland Heart	Senior Level	Company Secretary	May 2008	Midland Heart	10:00– 11:30	1
Midland Heart	Manager Level	Strategic Portfolio Manager	May 2008	Midland Heart	14:00- 15:30, 10:00- 11:00	2
Castle Vale	Senior Level	Chief Executive	June 2008	Castle Vale	15:00- 16:00	1
Castle Vale	Front Line	Operations Director	June 2008	Castle Vale	10:00-11:30	1
Castle Vale	Senior Level	Corporative Strategy Director	June 2008	Castle Vale	14:00-16:00, 14:00-1500	2
Castle Vale	Manager Level	Performance Director	June 2008	Castle Vale	10:00-11:00	1
Castle Vale	Manager Level	Partnership Manager	June 2008	Castle Vale	10:00-11:00, 14:00-15:00	2

These interviews with key people in the case study housing associations were undertaken in May and June 2008. Altogether, twelve interviews were conducted and in three cases, the same people were interviewed on two separate occasions. Most interviews lasted for about one and a half hours. It was not always easy to contact the interviewees and to arrange

interviews with them. An initial approach to the case study associations was made by the researcher's supervisor, a preliminary meeting followed with each association and the researcher then dealt directly with the associations to arrange the interview schedules. One association was reluctant to allow interviews with its board members saying that they were 'too busy' to take part in a study of this nature.

Despite these and other smaller practical difficulties, the interviews were conducted successfully and yielded excellent information for the purposes of the research. There was often regular contact between the researcher and interviewees, using e-mail and letters. All interviews were tape recorded (with the interviewees' permission) and transcribed by the researcher.

The topic guides for the interviews are shown in Appendix 5. There are three separate guides: for interviews with Board members, performance managers and directors. The topic guides were developed following a series of individual discussions with a total of seven academic staff in the University of Birmingham and Cranfield University, most of whom had recent experience as board members of housing associations. These discussions took place in the period from May 2007 to April 2008. Once the topic guides had been prepared, they were piloted and included interviews with staff who had been consulted in their preparation. The pilot interviews provided critical comments and advice which were helpful in reviewing the topic guides. They also provided valuable information, especially board member perspectives, on the questions covered in the Board members' topic guide.

The selection of methods for this research was influenced by limitations of time and resources. Other methods could have been used, such as such as direct observation, and

participant observation. In practice, however, these methods were not considered to be the most appropriate for the present study.

6.6 Concluding comments

This chapter has explained the research methodology for the study. It has discussed the researcher as subject; considered the issues about performance measurement arising from the review of the academic and policy literature; developed and presented the questions for the research; and explained how the questions will be addressed, using a combination of data from documentary, archive and interview sources. The next two chapters present the results of the case studies of Castle Vale Community Housing Association and Midland Heart Housing Association.

CHAPTER 7

CASTLE VALE COMMUNITY HOUSING ASSOCIATION CASE STUDY

7.1 Introduction

This chapter presents the investigation of Castle Vale Community Housing Association (CVCHA), the first of the two case studies selected for the research. The chapter has two sections. The first provides a general context, explaining the background to and the development and role of CVCHA. The second looks at the performance assessment for CVCHA, drawing on reports by the Housing Corporation and the Audit Commission.

7.2 Context

7.2.1 History and development of the association

Castle Vale Community Housing Association (CVCHA) is a community-based housing association set up to continue the management of homes in the Castle Vale area of Birmingham. CVCHA is also called a resident-led housing association. It has charitable status and is a registered Friendly Society. CVCHA's vision is as follows.

- Castle Vale Community Housing Association is run by local people for the benefit of the whole Castle Vale community.

- All services reflect the needs and wishes of local people, and are provided in the most cost effective manner.

- CVCHA works together with other organisations and agencies to ensure the long term sustainability of Castle Vale (Audit Commission, 2006: 14).

The main purpose of CVCHA is to support the residents of Castle Vale. CVCHA is also providing an opportunity for the residents of Castle Vale to become involved in delivering the services of CVCHA. Involvement is one of the important key factors in providing high quality services to CVCHA residents (Housing Corporation, 2004b). CVCHA is managed by a Board comprising 15 members, a majority of whom are residents of Castle Vale. All board members work in a voluntary capacity and do not receive any payments or benefits from CVCHA. In mid-2008, the association employed 86 staff in housing management work and community services. CVCHA owns and manages about 2,500 housing properties, representing around 60 per cent of all housing within Castle Vale. Most of the rented properties are in a very good condition and 99 per cent meet the government's Decent Homes Standard (CVCHA's web, 2008-01-27).

In Castle Vale there are around 4,500 homes, of which 37% are owner-occupied. Most owner occupiers were formerly tenants who bought their properties under the right to buy. The majority are aged over 60. Many have low incomes and rely on state benefits. They have difficulty in maintaining their homes to a decent standard. There is a long waiting list for rented accommodation from CVCHA, especially family accommodation.

7.2.2 Location

Castle Vale is six miles north-east of Birmingham city centre and is in the Kingsbury ward of Birmingham.

Picture 7-1   Birmingham in England

Source: Google

Picture 7-2   Castle Vale in Birmingham

Source: Google, Satellite image 2000ft/500m

7.2.3 The history of the development

The area was originally an airfield.   It was developed by Birmingham City Council as the Castle Vale estate between 1964 and 1969.   Seventy per cent of the properties were for public rented housing and thirty per cent for owner-occupation.   Many of the original residents came from slum clearance areas in central Birmingham and the estate was seen initially as very successful.   By the late 1970s/early 1980s, however, Castle Vale faced serious problems such as high rates of crime, poor health, unemployment and low education standards.   Castle Vale Housing Action Trust (CVHAT) was established under a special government programme to tackle the many problems of the area, including bad housing, poor physical conditions, and a range of social and economic issues.   Responsibility for the estate was transferred from Birmingham City Council to the Housing Action Trust following a vote in 1993 in which 92 per cent of tenants were in favour of transfer.   CVHAT was a non-departmental public body, well-funded by government but also successful at levering other public and private funds to improve the estate.   The HAT was managed by a board appointed by central government.   One of the main tasks for the HAT was to redevelop much of the existing housing on Castle Vale, demolishing almost all of the multi-storey blocks and replacing them with modern, attractive and secure accommodation.   A number of housing associations (Focus, Mercian and Sanctuary) were appointed to develop new housing on behalf of the Housing Action Trust.   As the programme progressed, Castle Vale Community Housing Association was formed in 1997 to manage the new properties, maintain existing housing on the estate and help to develop the local community.   From the outset, tenants played a major role in the management of CVCHA, and a team of professional staff was appointed to run the organisation on a day-to-day basis.

The Housing Action Trust was established for a twelve year period only and it was known that, at the end of this period, the tenants on the estate would be given the choice of their housing returning to the management of Birmingham City Council or of having a different landlord organisation.   When the vote took place in October 2003, 98 per cent of tenants opted to remain with CVCHA and only 2 per cent were in favour of a return to Birmingham City Council.   The formal transfer to CVCHA of responsibility for the social housing in Castle Vale took place in 2004 and the HAT finished its public business in 2005.   Thus, CVCHA became responsible for managing 2,700 homes, of which 1,200 were newly-built and 1,500 refurbished.

7.2.4 The role of CVCHA

In the 2003, ballot, when the tenants of Castle Vale Housing Action Trust chose CVCHA as their future landlord, CVCHA had campaigned on five important points:

- ● 'We are based on the Vale
- ● We keep your money on the Vale
- ● We are run by Castle Vale residents
- ● We keep homes in a good state of repair
- ● We invest only in the Castle Vale community' (CVCHA's web, 2008-01-25).

CVCHA emphasises that it is managed by local people, residents of Castle Vale, for the benefit of the whole Castle Vale Community.   When CVCHA works with other agencies, its aim is to maximise opportunities such as employment and training for local people. CVCHA was one of 14 organisations that took part in Investors in Communities (IiC), a

national pilot scheme for housing associations to make their communities safe and sustainable. The association prefers to remain an independent community-led housing association rather than operate outside the Castle Vale area. CVCHA defines its key roles as follows:

- To provide opportunities for resident involvement
- To provide excellent housing services
- To maintain homes
- To create a safe and secure community
- To remain independent
- To create a Community Development Trust
- To be a lead agency within the Neighbourhood Partnership Board
- To promote the strengths of community led housing and regeneration programmes (CVCHA's web, 2008-01-25).

The fundamental aim of CVCHA is to contribute to the long-term sustainability of Castle Vale. This is done through its own work and through partnerships with other organisations, for example, in the Castle Vale Neighbourhood Partnership which was set up as a successor organisation to the Housing Action Trust. Within CVCHA itself, the Board supports the Senior Management Team in preparing and rolling forward each year the 5 year Business Plan which is linked to Annual Operational and Departmental Action Plans. Business planning is one of a range of corporate tasks, including customer focus, performance monitoring, and quality assurance. All services CVCHA operates are underpinned by values such as resident involvement, high quality, responsive services and resident training programmes (Audit Commission, 2006). Delivering its housing and community services

supports CVCHAs broader role as part of community regeneration programmes regionally and nationally.

7.3 Performance assessment for the association

The performance measurement system for housing associations is operated through a procedural framework determined by the two regulatory organisations, the Audit Commission and the Housing Corporation. As noted in previous chapters, the key element in performance assessment is self-assessment, with considerable reliance being placed on the completeness of information submitted by housing associations to the regulatory organisations.

7.3.1 Overall performance of CVCHA

Table 7-1 presents basic information on the rented housing stock owned and managed by CVCHA in the year 2007. The total stock in management was just over 2,400, the majority being general needs rental housing, with a small amount (128 dwellings) of housing specially designed or adapted for older people. There was no shared ownership housing. The geographical location of the association's operations was in just one local authority area, the City of Birmingham.

Table 7-1   Total CVCHA housing

	Owned	Managed
General Needs Rented Housing	2272	2272
Total General Needs rented housing (including keyworker)	2272	2272
Supported Rented Housing	-	-
Housing for Older People	128	128
Total Supported Housing and Housing for Older People	-	-
Shared Ownership	-	-
Total Leased Housing	0	0
Staff/warden accommodation	3	3
Total LAs in which association operates	1	-
Total LAs in which association owns 10 or more social housing rental units	1	-

Source: Housing Corporation Statistics 2007 (the Housing Corporation web)

The general needs housing stock managed by CVCHA has increased from 613 in 2001 to 2271 in 2007.   The main increase occurred in 2005 as a result of the transfer of stock from CVHAT (Table 7-2).   CVCHA remodelled some of its stock from general needs to special housing for older people and this has contributed to the provision in 2007 of 128 homes for older people.

Table 7-2   Total housing in CVCHA over seven years

Performance Indicator	The Castle Vale Community Housing Association Ltd (L4118)						
	2001	2002	2003	2004	2005	2006	2007
Total general needs dwellings owned	613	686	820	1060	2282	2280	2272
Total Supported Housing owned	-	-	-	-	-	-	-
Total Housing for Older People owned	-	-	-	-	-	-	128

Source: Housing Corporation Statistics 2007 (the Housing Corporation web).

Table 7-3   Overall performance of CVCHA

Performance Indicator	2000/ 2001	2001/ 2002	2002/ 2003	2003/ 2004	2004 / 2005	2005 / 2006	2006 / 2007
Stock Failing Decent Home Standard	-	0.0%	0.0%	0.05%	0.8%	0.7%	0.0%
Average GN SAP rating	88	88	89	89	90	90	90
Routine repairs completed in target	95%	96%	96.5%	97%	94.5%	98.9%	95.6%
Vacant Dwellings	-	-	-	-	-	-	0.1%
Vacant General Needs Dwellings	-	-	-	-	-	-	0.1%
Re-let time (all managed stock)	-	-	-	-	-	-	16.3 days
GN Re-let time (for managed stock)	12 days	10 days	13 days	8 days	5 days	3 days	16.4 days
Current tenant arrears at FYE	-	-	-	-	-	-	5.9%
Tenant satisfaction overall	-	81%	82%	87%	85%	85%	85%
Tenant satisfaction with participation	-	67%	64%	80%	93%	93%	65%
Tenants satisfied with repairs & maintenance	-	-	-	-	-	-	79%

Source: Housing Corporation Statistics 2007 (the Housing Corporation web).
GN = General needs housing; SAP=energy rating

The performance of CVCHA in the years 2000/01 to 2006/07 is shown in Table 7-3, based on Housing Corporation statistics.   The percentage of stock failing the Decent Homes Standard (DHS) has been very low but that is to be expected with mainly new and/or modernised housing provision.   At 85 per cent, overall tenant satisfaction is high, although satisfaction with participation fell from 2005/06 to 2006/07.   Other performance figures for Castle Vale Community Housing Association, including [data for comparable 'peer' associations] are given in Appendix 6.

7.3.2 Housing Corporation Assessment report on CVCHA

An important part of the supervision exercised by the Housing Corporation is through the

Housing Corporation Assessment (HCA), based largely on self-assessment data provided by individual housing associations. The system enables the Corporation to assess the general performance and financial position of an association, and to compare associations on a consistent basis. This is a continuous process and an HCA will be reviewed 'from time to time' by the Corporation, for example if there has been a material change affecting the Assessment. The Assessment is based on a range of information, much of it provided by associations themselves:

- Audited annual accounts

- External auditors' management letter

- Annual self-assessment of compliance with the Regulatory Code

- Internal controls assurance statement

- Business plans

- Financial returns

- Performance indicators

- Regulatory and statistical return

- Annual efficiency statement

In the case of CVCHA, the most recent HCA of August 2006 also drew on:

- Audit Commission inspection (February 2006)

- Inspection action plan (ongoing at July 2006))

There is also regular contact between an association and the Corporation, including, for

example, attendance by Corporation staff at occasional Board meetings.

As explained in Chapter 4, the HCA uses a 'traffic light' system to indicate performance against the three expectations of the Regulatory Code, which are that an association should be: viable, properly governed and properly managed. A green light indicates no material concerns about performance, the association is either complying with the Regulatory Code or taking sufficient steps to comply with the Code within a reasonable timescale; an amber light indicates some material concerns about performance, resulting in Corporation action above the minimum; a red light indicates serious concerns about performance.

Viable

Housing associations must conduct their business according to a *viable* framework. It is important to identify risk. The Corporation sets out its expectations as follows:

'1.2 Housing associations must operate a framework that effectively identifies and manages risks [by]

1.2.1 Identifying all major risk areas that might prevent them achieving their objectives

1.2.2 with the necessary arrangements to manage risks and mitigate their effects' (Housing Corporation, 2005).

In the case of CVCHA, the Housing Corporation published HCAs in 2003, 2004 and 2006. The outcomes of the assessments in terms of financial viability show an initial concern in 2003 with uncertainties around the transfer of stock from CVHAT to CVCHA:

'The potential transfer of the remaining 1300 properties from Castle Vale Housing Action Trust is uncertain. The ballot for transfer will be on an individual basis and not on the basis of a majority decision by all tenants. There is therefore a likelihood that some tenants will transfer and it is uncertain what the impact on the existing business plan will be.' (Housing Corporation, 2003: 3)

By 2004, after the successful conclusion of the transfer ballot, in which only 20 tenants voted to return to Birmingham City Council, the Corporation was able to say:

'Following the transfer of the HAT properties the association will have a stronger balance sheet and potential for development opportunities. The association has forecast a significant increase in turnover and surpluses, following the transfer, which has resulted in strong interest cover. This indicates that cash flows generated can comfortably meet interest obligations. The rapid growth generated by the transfer will bring some risks, the association has doubled in size and has no track record upon which to base its forecasts. The association needs to deliver the promises made to the former HAT tenants.' (Housing Corporation, 2004: 4)

This generally positive view was reinforced in the 2006 HCA:

'The association experienced significant growth during 2004/05 following the transfer of ownership of over 1,400 properties from the HAT. During 2004/05 the association generated a surplus of £1.2m from a turnover of £7.2m which was broadly in line with the previous five year forecast.' (Housing Corporation, 2006)

In all three reports referred to, CVCHA was given a 'green light' for financial viability.

Properly governed

According to Housing Corporation guidance, housing associations need effective leadership based on governance to improve the performance of their service delivery. The Regulatory Code requires 'the governing body, supported by appropriate governance and executive arrangements, [to maintain] satisfactory control of the organisation. (Housing Corporation, 2005)

CVCHA is a resident-led housing association based in the single location of Castle Vale. Its Board of Management is the governing body. Resident representatives on the board are nominated from the estate and are elected at the Annual General Meeting of the association. The board has a maximum of 15 members consisting of resident representatives, tenants of CVCHA and representatives of partner organisations. Resident and tenant members are in the majority. Tenants of CVCHA may attend board meetings as observers and this practice is encouraged, for example through the regular tenants' forum meetings that are held on the estate. When the Corporation attended a Board meeting in May 2003, it found:

> '….it was well attended, serviced by clear board reports with a good level of discussion on agenda items. From our observations at the meeting, the board demonstrated its commitment to the work of the association in the local area and showed a great deal of enthusiasm for tackling current issues on the estate.' (Housing Corporation, 2004:5)

As part of its review of governance, the Corporation in 2003 carried out a review of CVCHAs work on equality and cultural diversity. The Corporation considered that good progress was being made and in its 2006 report, noted that the association had prioritised equality as a specific corporate aim. The 2006 review also includes a positive mention of CVCHAs resident involvement policy to provide opportunities for residents to participate in the process of the CVCHA management. The Corporation was satisfied that CVCHA met the governance requirements of the Regulatory Code and gave a 'green light' for this measure of performance (Housing Corporation, 2003; 2004; 2006).

Properly managed

To comply with this part of the Regulatory Code, an association needs to meet 'the standard expected given the context in which it works and the available resources'. In the case of CVCHA both the context and the availability of resources have changed significantly, as a result of the transfer of staff and properties in management from the HAT to CVCHA. The assessment reports by the Corporation in 2003 and 2004 comment favourably on the preparations being made for the transfer, while noting that some aspects of management, such as best value reviews, remained to be completed. By the time of the 2006 assessment, the Corporation's view was that CVCHA had a committed management team that worked well with partner organisations and had been successful in focusing on key issues of operational priorities relating to the stock transfer. It was noted 'the team has a generally good reputation on the estate' and that levels of tenant satisfaction with the association were high. As shown earlier in this chapter, CVCHA's performance indicators from 2002 to 2006 are generally good and these were commented on favourably by the Housing Corporation.

Reference was made also to the Audit Commission inspection of CVCHA which took place in February 2006 and which is discussed in the next section. Among areas of good practice mentioned in the HCA for 2006 was the strategy, developed by CVCHA called 'Tackling Anti-Social Behaviour'. (Housing Corporation, 2006) A 'green light' was given for being 'properly managed'.

7.3.3 Audit Commission housing inspection report 2006 on CVCHA

The Audit Commission has a responsibility for investigating if public money is spent in accordance with the 3 Es: economically, efficiently and effectively. The Commission inspects housing associations to assess their performance in providing services that are expected to give 'value for money' for both customers and the taxpayer. As discussed in Chapter 4, the approach of the Audit Commission is to follow Key Lines of Enquiry (KLOEs) in assessing the services being inspected.

The Audit Commission published its first inspection of CVCHA in June 2006. On a four-point scale of no stars (poor) to three stars (excellent), it concluded that CVCHA was giving a 'fair' service (one star) with 'excellent' prospects for improvement (Figure 7-1).

Figure 7-1   Scoring chart: Audit Commission inspection
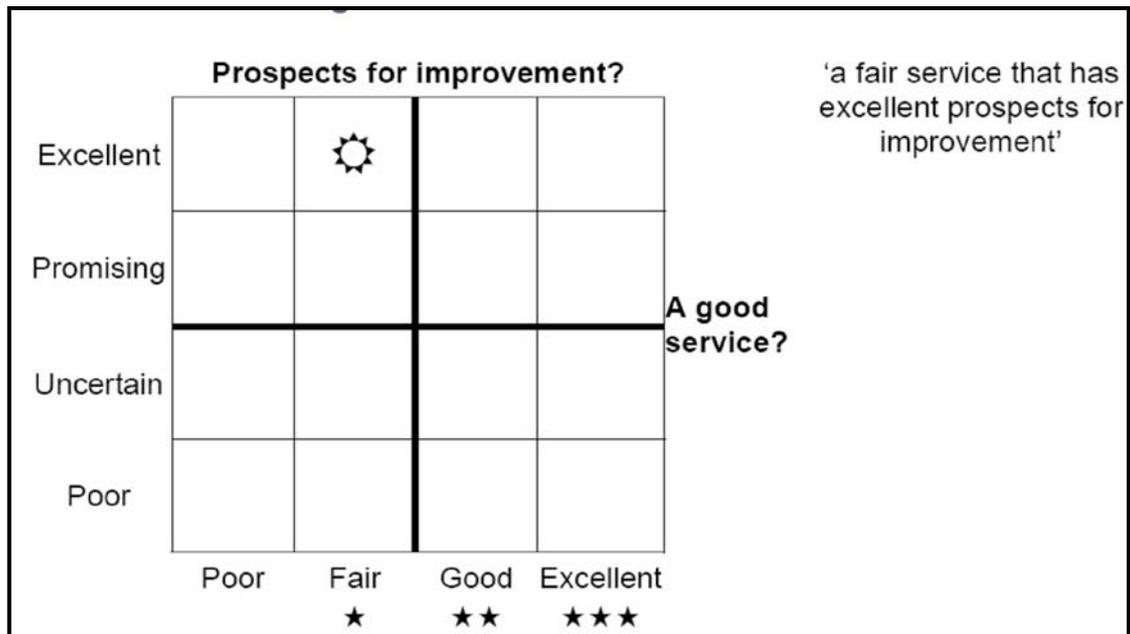
Source: Audit Commission (2006: 6)
Note: The scoring chart displays performance in two dimensions.   The horizontal axis shows how good the service or function is now, on a scale ranging from no stars for a service that is poor (at the left-hand end) to three stars for an excellent service (right-hand end).   The vertical axis shows the improvement prospects of the service, also on a four-point scale.

The judgement summed up in Figure 7-1 is based on the evidence provided by CVCHA through the inspection process.   In the Audit Commission's view, overall performance and customer satisfaction in key areas have improved, but there are some areas where the association needs to improve on value for money.   The inspection report asks:

● How good is the service?

● What are the prospects for improvement to the service?

How good is the service?

The Commission assessed CVCHA as providing a 'fair' service with many notable features:

- 'the offices are well located, have good access and facilities; staff are friendly, polite and helpful;

- homes are of a good standard and are energy efficient; repairs are generally carried out promptly;

- there is a good range of rent payment methods available to customers and effective prevention and enforcement has resulted in a drop in arrears;

- the association has a well balanced and effective approach to anti-social behaviour, invests time and resources in prevention and diversionary activities but takes firm and effective action where necessary; and

- it is taking positive action to promote community cohesion, involving young people, facilitating inter-generational activities and tackling racial harassment.' (Audit Commission, 2006: 6)

The association has a good service for dealing promptly with property repairs.   Table 7-4 shows the percentage of repairs completed within the target timescales.

Table 7-4   Responsive repairs performance

	2003/4	*2004/5*	*2005/6 (to January 2006)*
Emergency Repairs	95%	98.7%	96.9%
Urgent Repairs	93%	97.4%	99%
Routine Repairs	97%	94.5%	98.7%

Source: Housing Corporation Performance Indicators and CVCHA records

In 2005/06, CVCHA completed nearly 97 per cent of all emergency repairs and 99 per cent

of urgent and routine repairs on target. Customer satisfaction with the repairs service was high: for the period 2005/06, 94 per cent of tenants responding to satisfaction surveys said they were satisfied with the service (Audit Commission, 2006: 29). However, the Audit Commission had many criticisms of the repairs service, especially relating to whether the service was providing value for money: for example, there was said to be a high level of repairs treated as 'emergencies', which are by nature more costly to respond to; it was felt also that the work of repair and maintenance sub-contractors was not sufficiently monitored and that performance targets for contractors were sometimes inadequate or non-existent.

Positive comments were made on other aspects of the service provided by CVCHA. For example, the association has made an arrangement with its gas servicing partner to reduce costs and improve performance in terms of value for money. CVCHA has also developed its training programmes, including in-house training and performance information analysis skills, for housing officers and the income management team leader, which has saved £ 47,000 on legal costs. A new rent payment method was helpful in reducing the level of arrears.

CVCHA has been successful in obtaining external funding for projects designed to benefit the community. For example, CVCHA secured £ 63,000 from the Housing Corporation, for the development of resident involvement; £ 17,000 from the HAT endowment fund for an equalities and improvement project; £ 187,000 from the Youth Offending Service, Connexions and West Midland Police for diversionary activities for young people; £ 163,000 for health related projects from the Primary Care Trust and the Big Lottery; and £ 237,835 from the Home Office for neighbourhoods improvement and to 'release social

capacity'.

The Audit Commission concluded that 'strengths outweighed weaknesses' in CVCHAs approach to anti-social behaviour and estate management. CVCHA has facilitated inter-generational activities, involving young people and tackling racial harassment, in partnership with other organisations. The association has set out programmes aimed at preventing anti-social behaviour (ASB), for example, by providing a range of diversionary activities, particularly for young people.

Nevertheless, despite many favourable aspects of this part of the inspection, the Audit Commission concluded that there was much that can be done to improve the approach to service provision:

> 'CVCHA does not have a full set of clear, measurable and published standards against which customers can judge services they receive and aspects of service are not shaped around customer convenience. For example, there is no formal appointments system, office hours are limited to normal working hours and web based services are limited. The association lacks a comprehensive approach to diversity that is informed by customer and stakeholder views. There are gaps in target setting and the lack of comprehensive information about its customer profile means it cannot effectively tailor services to meet the needs of its customers. The aids and adaptations service is underdeveloped, it is not publicised and CVCHA does not have a clear picture of the need for adaptations amongst its tenants nor easily accessible information about adapted properties in its stock. Debt advice arrangements are underdeveloped and a lack of debt profiling means that the

association cannot effectively target debt and benefit advice. The association is not maximising value for money; it has not yet taken full advantage of modern methods of procurement and there are inefficiencies in the repairs service, which hamper improvements in value for money.' (Audit Commission, 2006: 51)

What are the prospects for improvement to the service?

The Audit Commission report noted that CVCHA has improved its performance in key areas since the stock transfer from the HAT in 2004. This is reflected in higher levels of customer satisfaction with both services and customer involvement. The quality of leadership received favourable comment:

> 'There is evidence of effective leadership at all levels, both within the association and in the community as a whole, which challenges performance, drives improvement and encourages learning from others.' (ibid: 61)

In the view of the Audit Commission, CVCHA's prospects for improvement are 'excellent'. Among the suggestions that will help to achieve this are:

- CVCHA should set out clear, measureable and published standards to help its tenants more easily understand CVCHA services and the process of service delivery.
- Benchmarking, which is not well developed, can be used to compare performance against that of other associations, especially regionally and with associations comparable in character to CVCHA.

Considering the question 'does the service have the capacity to improve?' the inspection report comments favourably on the quality of leadership in CVCHA; on the arrangements in place to develop staff and board members; on the framework for managing human and financial resources; on the success of the organisation (referred to earlier) in attracting additional funding to support its activities; and on the effectiveness of communication within the organisation. In performance management, the main weaknesses were highlighted as being in frontline monitoring and benchmarking, though both were seen to be improving. There are 'also areas where the association has no clear targets, for example for value for money and efficiency savings and the association does not make full use of modern methods of procurement and IT to maximise efficiency and reduce service costs' (Audit Commission, 2006: 58-61)

7.4 Concluding comments

This chapter has discussed the formal arrangements for assessing the performance of Castle Vale Community Housing Association and has presented some of the results of recent assessments carried out by the Housing Corporation and the Audit Commission. CVCHA is a community based housing association that works exclusively in the Castle Vale area to the north-east of Birmingham. The association is relatively newly formed and received a major boost to its activities and responsibilities following a tenants' ballot on the future management of rented housing in Castle Vale, following the winding-up of the Castle Vale Housing Action Trust.

The assessments by both the Housing Corporation and the Audit Commission recognise the special circumstances of the recent transfer of housing to CVCHA but both are

uncompromising in their expectations of appropriate performance standards. The Housing Corporation Assessment(s) and the Audit Commission Inspection Report both draw favourable conclusions about CVCHA, with three 'green lights' from the Corporation and a 'fair one star service' with 'excellent prospects for improvement' from the Audit Commission. The Audit Commission report in particular, however, reviews the performance of CVCHA in considerable detail, gives full credit where it seems appropriate to do so, and makes constructive suggestions for improvements. In its formal response to the Audit Commission inspection, CVCHA accepted the guidance given and the timetable for implementation that had been proposed. (Audit Commission, 2006)

CHAPTER 8

MIDLAND HEART HOUSING ASSOCIATION CASE STUDY

8.1 Introduction

This chapter presents the investigation of Midland Heart Housing Association (MH), the second of the two case studies selected for the research. There are three sections. The first provides an outline of the association, including a summary of its activities, and the background to the creation of Midland Heart. The second section looks at a range of performance data; and the third considers the Housing Corporation Assessment, conducted in 2006.

8.2 Context

8.2.1 Aims of the association

Midland Heart is a newly established housing association. It was formed in March 2006 through the merger of housing associations in the Prime Focus and Keynote Housing Groups. Keynote Housing Group was based in Coventry and Prime Focus in Birmingham. Following eighteen months of discussion, beginning in 2004, the two groups decided to merge in 2005 to form a new 'housing and community investment group'. The process involved people in both organisations: board members, shareholders, staff and tenants, as well as other stakeholders. With more than 30,000 properties, Midland Heart is one of the ten largest housing associations in the United Kingdom and the largest housing association in the Midlands region. It is active in 33 local authority areas in England.

Midland Heart was registered with the Housing Corporation in April 2006. In 2007/08, it had an annual turnover of £145m and a staff of 1,130 (Midland Heart, 2008). Midland Heart claims to be 'passionate about communities'. Its mission is

> …[to] bring to bear the resources of the region's largest housing and community investment agency, and one of the country's top ten, to create more decent and affordable homes, higher levels of customer satisfaction and inclusive, cohesive and empowered communities (Midland Heart, 2006: 8)

The main aims of MH are to meet the needs of its tenants, to create sustainable communities and to provide 'a platform for social investment and community regeneration in the Midlands' (Housing Corporation, 2006a: 3). MH's five key challenges are:

- To constantly improve the satisfaction of customers, aiming to be a top performing housing association.

- To improve operating efficiency enabling an additional £10 million to be released to invest in homes, services and communities by 2009.

- To reach the national Decent Homes Standard at least two years ahead of government expectations.

- To continue to participate fully in the national housing agenda and aim to build an additional 6,000 homes by 2016.

- To fully integrate the organisation's multi-million pound investment programme and deliver enhanced neighbourhood services and community investment programmes (Midland Heart, 2006: 35).

According to MH, it seeks to provide a high quality of social business and to ensure the achievement of 'five interrelated values': ambition; imagination; customer first;

empowerment; and inclusiveness.

8.2.2 Area of operation

As an amalgamation of former housing associations, Midland Heart has properties in many parts of the East and West Midlands and beyond, including both urban and rural areas (Figure 8-1).

Figure 8-1   The regions of England

Source: DCLG web, searched July/2008

Specifically, MH operates in the following areas:

Atherstone; Barnwell, Leicestershire; Birmingham; Bromsgrove; Coventry; Cannock; Dudley; Dursley, Gloucestershire; Evesham; Leamington Spa; Leek, Staffordshire; Leicester; Lichfield; Melksham, Wiltshire; Milton Keynes; Nuneaton; Northampton; Nottingham; Reddich; Ross on Wye, Herefordshire; Rugby; Rugeley, Staffordshire; Rushden, Northamptonshire; Stafford; Stoke-on-Trent; Tamworth; Walsall; Warwick; Wolverhampton.

8.2.3 Brief history

Midland Heart was formed through the merger of two housing groups which were themselves formed from the amalgamation of many smaller housing associations. The history of Prime Focus goes back more than 80 years, to the establishment in Birmingham in 1925 of the Copec Housing Improvement Society.   Keynote Housing Group had its origins more than 40 years ago in Coventry Churches Housing Association, founded in 1965 and Midland Area Improvement Housing Association Limited, founded in 1967.   COPEC, CCHA and MAIHAL were all concerned with tackling housing problems and meeting the needs of minority communities.   The evolution of these associations and groups into Midland Heart is shown in Table 8.1.

Table 8-1   The Midland Heart 'Family Tree'

Copec HIS (1925-1970)

Birmingham HT (1965-1970)

Wolverhampton HA (1970-1976)

Hestia HA (1970-1991)

St. Chad HS (1972-1991)

Shape HA (1978-1994)

Harambee/Black Star HA (1988-1996)

HAMAC (1986-2006)

Focus HA (1991 onwards)

▼

PRIME FOCUS
(2000-2006)

▼

MIDLAND HEART
(2006 onwards)

▲

KEYNOTE GROUP
(1998-2006)

▲

Touchstone HA (1994 onwards)

Normid HA (1976-1994)

Midland Area HA (1967-2006)

Coventry Churches HA (1965-2004)

Centre of England HS (1962-1970)

Source: Midland Heart, 2006: 7

8.2.4 Providing social housing

Midland Heart and its predecessor organisations have invested very large amounts of money and time in providing social housing. By 2009, the total stock in management was nearly 32,000 dwellings. These properties are widely scattered, mainly in urban areas, and often surrounded by housing of other tenures, particularly private housing. In the view of management, one of the main successes in the creation of MH has been the opportunity to expand its size and business.

Chart 8-1   Midland Heart Housing Stock, 2009
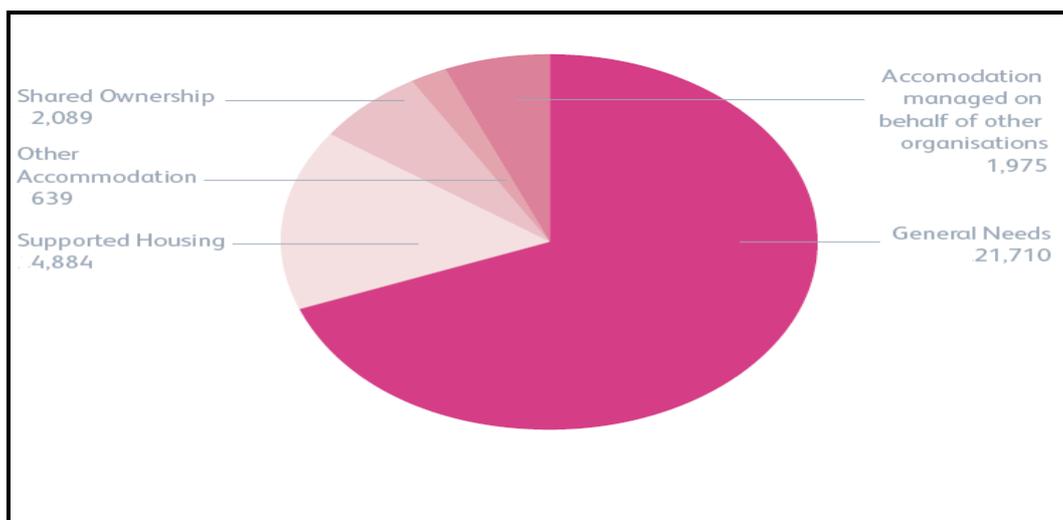
Source: Midland Heart web, searched July 2009

From Chart 8-1 it can be seen that around 70 per cent of MH properties are for general needs. Other types of housing include supported housing and accommodation managed on behalf of other organisations (4,884 and 1,975 respectively). More than 2,000 properties are for shared ownership. About 70 per of MH's housing stock is in Birmingham, including extensive ownership in inner city renewal areas, characterised by ethnic and cultural diversity, where deprivation levels can be high.

Although not representative of the total MH population and households, the Continuous Recording (CORE) data highlight some of the characteristics of the people housed by MH in 2008 and confirm the important role played by MH as a social housing provider for people with a wide range of needs.

Highlights 2007-08

In the year 2007-08, MH invested £24 million in improving 1,600 homes as part of their programme aimed to bring all their housing to the Decent Homes Standard at or before the government's target date of 2010.   During the same period, 460 new homes were completed, including 58 per cent for renting and 40 per cent for low cost home ownership ('affordable' housing).

The CORE data for 2008 refer principally to the housing allocations made by a housing association in the year covered by the statistics.   In 2008, MH allocated 1,725 properties and Chart 8-2 shows the distribution of these by household type.   For example, the proportion of allocation made to single adult households was 48 per cent, accounting for almost half of all allocations made that year.   By contrast, the proportion of lettings to multi-adult households with children was 14 per cent.

Chart 8-2   Allocations by Household Type, Midland Heart, 2008
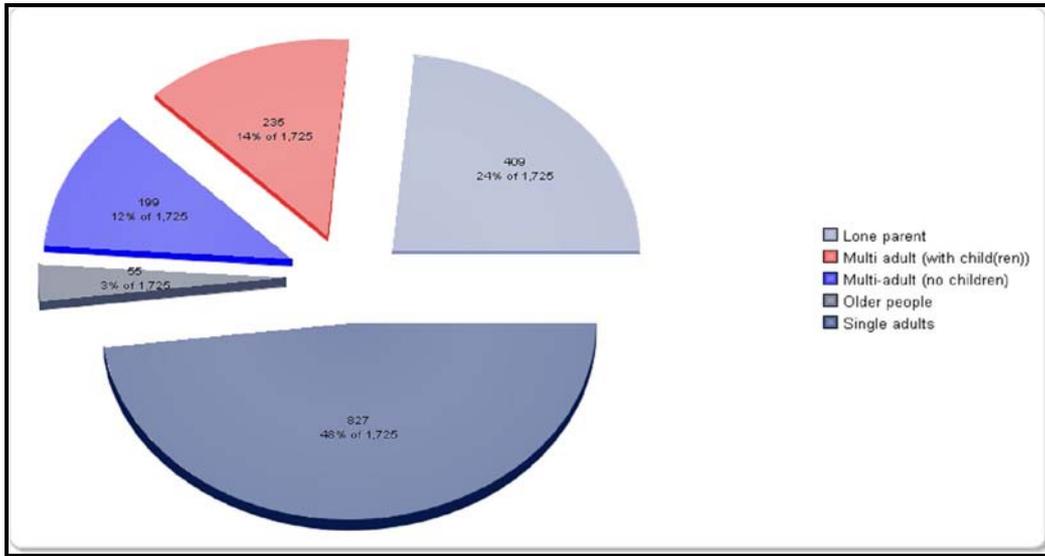
Source: Continuous Recording (CORE) web (www.core.ac.uk)

Chart 8-3 is based on the 1,665 allocations in 2008 for which information is available on the ethnic group of the head of household.   Fifty per cent of lettings were to 'White British' and a further 4 per cent to 'White Irish and Other White', with the next largest proportion (27 per cent) to 'Black or Black British'.

Chart 8-3   Allocations by Ethnic Group of Household Head, Midland Heart, 2008
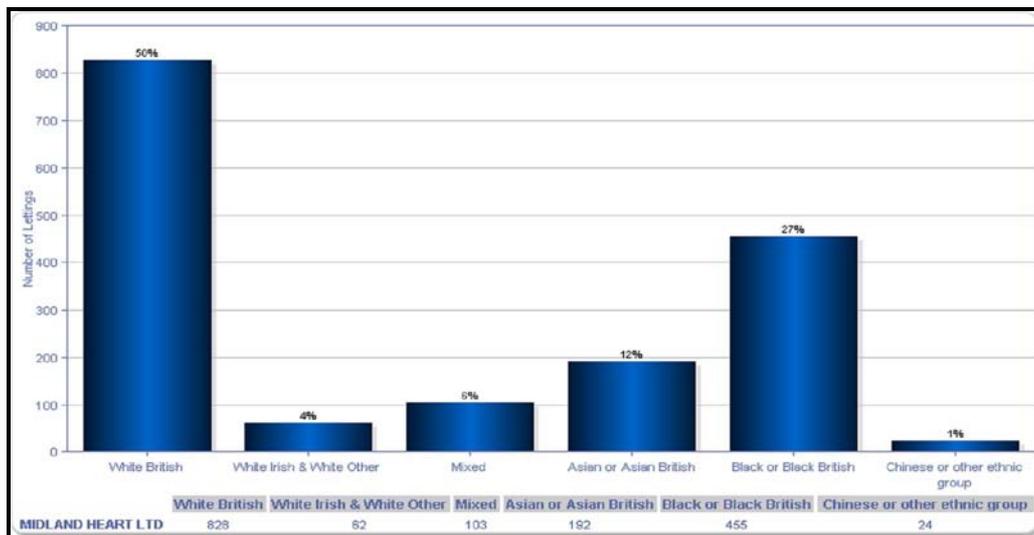
Source: Continuous Recording (CORE) system (www.core.ac.uk)
Note: White British (50%, 828), White Irish & White Other (4%, 62), Mixed (6%, 103), Asian or Asian British (12%, 192), Black or Black British (27%, 456), Chinese or other ethnic group (1%, 24)

Chart 8-4   Allocations by Economic Status of Household Head, Midland Heart 2008
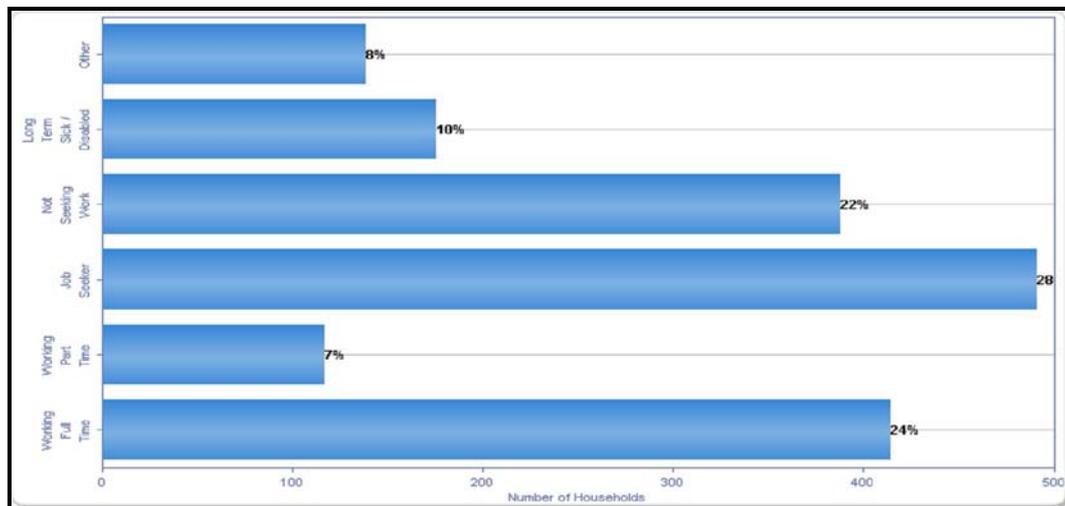
Source: Continuous Recording (CORE) web (www.core.ac.uk)
Note: Other (139), Long term/sick disabled (176), Not seeking work (388), Job seeker (491), Working part-time (117), Working Full-time (414)

Chart 8-4 shows allocations in 2008 according to the economic status of the head of household.   Most of these newly housed tenants were not working or seeking a job: 70 per cent did not have a job and the proportion looking for a job was 28 per cent.

8.3 Performance assessment for the association

The Housing Corporation and the Audit Commission carried out inspections of the housing associations that now form Midland Heart. For example, the Audit Commission inspected Prime Focus in 2004 and Midland Area in 2005.   The Housing Corporation made a Housing Corporation Assessment (HCA) of Midland Heart in 2005 and 2006.   In the 2004 inspection of Prime Focus, the Corporation found that 'overall services delivered by the group were satisfactory'; while the 2005 inspection of Midland Area concluded that it gave 'a fair service

with excellent prospects for improvement' (Housing Corporation, 2006: 7).

8.3.1 Overall performance of Midland Heart

The Housing Corporation Assessment of Midland Heart, carried out in 2006 and published in 2007, explained that:

> 'Midland Heart is the asset holding parent of five non-registered limited companies that deliver its housing services.   It provides a wide range of corporate services to these business units.   The business units are:

> Touchstone Heart Limited (Touchstone), operating from offices in Coventry, Leicester, Stoke-on-Trent and Wolverhampton.   Touchstone manages over 10,000 homes including housing for rent, shared ownership and key worker accommodation. It also delivers a range of regeneration services;

> Focus Heart Limited (Focus), managing 6,250 homes for rent, shared ownership and key-worker accommodation in central and south Birmingham.   Focus deliver a range of regeneration services;

> Urban Heart Limited (Urban), the combination of HAMAC and Midland Area, is managing more than 6,200 homes in North West Birmingham and Sandwell.   Urban Heart delivers a range of regeneration services;

> Focus Futures Heart Limited (Focus Futures), based on the care and support

services offered previously by Prime Focus and Keynote, Focus Futures

specialises in providing accommodation and support for a wide range of

vulnerable people.   It manages more than 100 schemes, providing 6,500 units that

are homes to people in need of care and support and provision for older people; and

Cygnet Property Management plc (Cygnet), owns and manages the group's

market rented properties and provides a range of management services for private

landlords'(Housing Corporation, 2007: 3).

The performance of Midland Heart in 2006/07 was summarised as follows (Table 8-2):

Table 8-2   Overall performance of Midland Heart 2006/07

Performance Indicator	2006 /07
Stock Failing Decent Homes Standard	14.4%
Average General Needs SAP rating	62
Routine repairs completed in target	95.0%
Vacant Dwellings	4.3%
Vacant General Needs Dwellings	4.0%
Re-let time (all managed stock)	-
General Needs Re-let time (for managed stock)	-
Current tenant arrears at FYE	8.4%
Tenant satisfaction overall	71%
Tenant satisfaction with participation	44%
Tenants satisfied with repairs & maintenance	62%
Shared owner satisfaction overall	61%

Source: Housing Corporation Statistics 2007 (Housing Corporation web).

Matters of concern indicated by the figures in Table 8-2 include a relatively high percentage

(14.4 per cent) of stock failing the Decent Homes Standard; a high level of rent arrears (8.4 per cent); and only moderate levels of tenant satisfaction with participation (44 per cent) and repairs and maintenance (62 per cent). This indicates a performance below that of CVCHA, the other case study association, which is likely to reflect differences in the history, development, size and areas of operation of the two organisations. On these indicators, too, Midland Heart compares unfavourably with national figures. For example, although MHs policy is to place customers at the centre of its activities, its level of tenant satisfaction with participation (44 per cent) is well below that of the 53 per cent in the national bottom quartile (see Appendix 7). In fact, MHs performance generally, as shown in Appendix 7, is below the national median levels, for example on properties failing the Decent Homes Standard, the rate of vacant dwellings, and the level of rent arrears. However, because figures for MH (as a 'new' organisation) are given only for the year 2007 and not for the full period of 2001 to 2007, it is not possible to say whether its performance (as measured by these indicators) was improving or not, both as an organisation and in comparison with national averages.

8.3.2 Comparison with housing associations in the West Midlands

A feature of the approach to performance measurement as practised by the Housing Corporation is its emphasis on comparative analysis, not only at national level but also among 'peer groups' of similar associations, and at regional level. Thus, Midland Heart's performance is systematically compared with that of other associations based in the West Midlands region. This section looks at some regional comparative information.

Tenant satisfaction

Table 8-3 compares levels of tenant and shared owner satisfaction in Midland Heart with

those for other West Midlands housing associations and the national mean average. In all categories, MH scores are lower than both regional and national averages, though the least variation is among shared owners. MHs overall tenant satisfaction in 2007 was 71 per cent compared with 81 per cent regionally and 79 per cent nationally.

Table 8-3   Tenant and shared owner satisfaction 2006 and 2007

Tenant satisfaction	Midland Heart		Other West Midlands associations		National Mean Average
	2006	2007	2006	2007	2007
Tenant satisfaction overall	-	71%	81%	81%	79%
Tenant satisfaction with participation	-	44%	62%	61%	60%
Tenants satisfied with repairs and maintenance	-	62%	-	77%	76%
Shared owner satisfaction overall	-	61%	66.3%	66%	63%

Source: Housing Corporation Statistics 2007 (Housing Corporation web).

Figure 8-2 shows the percentage of tenant satisfaction overall in 2007 for all West Midlands based associations. The red line indicates the average for all associations regionally and shows that 12 were below average. Among this group, Midland Heart has a lower satisfaction percentage than all other associations, apart from Family HA Birmingham. The highest satisfaction percentage is for Stafford & Rural Homes Limited with over 90 per cent.

Figure 8-2   Tenant satisfaction overall 2007: Midland Heart and other West Midlands Housing Associations
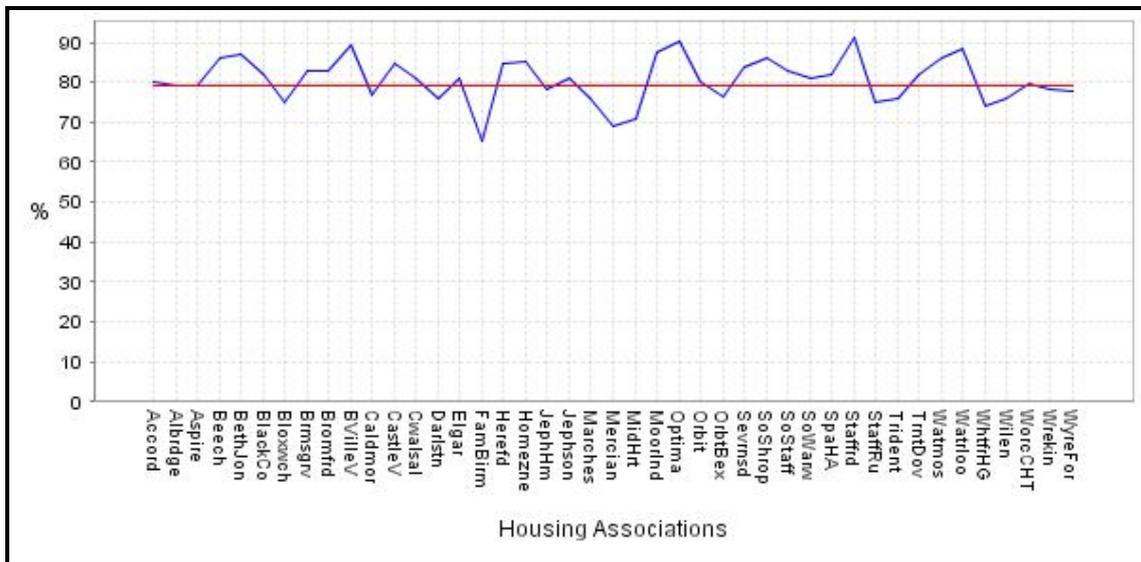
Source: Housing Corporation Statistics 2007 (Housing Corporation web).

Rent arrears

Table 8-4 shows rent arrears at the financial year-end, expressed as a percentage of the annual rent debit.   The percentage of rent arrears in Midland Heart is high at 8.4 per cent, almost double the regional figure for 2007 of 4.6 per cent.   In fact, Midland Heart rent arrears are the highest of all the associations based in the West Midlands (Figure 8.3).

Table 8-4   Rent Arrears 2006 and 2007

Rent arrears	Midland Heart		Other West Midlands associations		National Mean Average
	2006	2007	2006	2007	2007
Current tenant arrears at FYE	-	8.4%	-	4.6%	5.2%
Current tenant rent arrears at year end for GN	-	9.2%	4.4%	5.1%	5.4%
Current tenant SH/HOP rent arrears at year end	-	5.5%	-	2.4%	4.0%

Source: Housing Corporation Statistics 2007 (Housing Corporation web).

Figure 8-3   Rent Arrears 2007: Midland Heart and other West Midlands Housing Associations
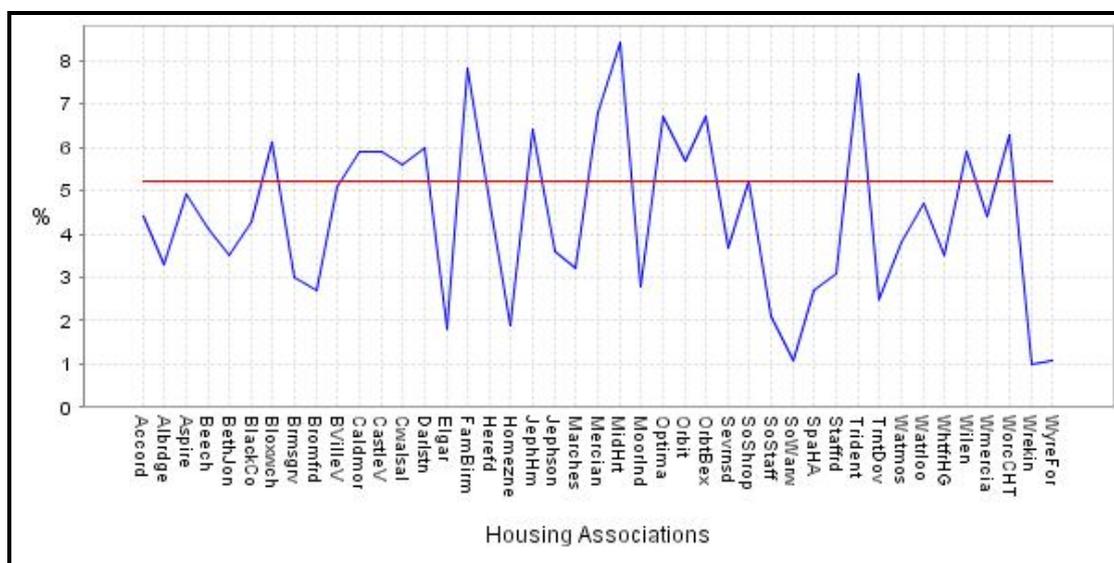
Source: Housing Corporation Statistics 2007 (Housing Corporation web).

While recognising that year end rent arrears provide only a snapshot of figures that can fluctuate during the year, it is notable that within the region, arrears in 2007 ranged from MH's 8.4 per cent to Wrekin Housing Trust's 1.0 per cent.

Vacant dwellings

At any time, housing associations will always have a certain number of vacant properties for reasons including tenant turnover and programmes of rehabilitation and renewal. Without vacancies, new tenancies cannot be offered. However, the management of vacancies is important in ensuring best use of the housing stock and is an element influencing tenant satisfaction with the association. Table 8.5 shows that in 2007, 4.3 per cent of Midland Heart dwellings were vacant, compared with 2.4 per cent regionally and 2.6 per cent nationally. More detailed comparison with other West Midlands associations is given in Figure 8.4. It is of interest to note that the other case study association, CVCHA, had

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almost no vacant dwellings in 2007, which brings its own issues for an association that
wishes to offer new tenancies but is unable to do so through a shortage of vacancies.

Table 8-5   Vacant dwellings 2006 and 2007

Vacant Dwellings	Midland Heart		Other West Midlands associations		National Mean Average
	2006	2007	2006	2007	2007
Vacant Dwellings	-	4.3%	-	2.4%	2.6%
Vacant GN Dwellings	-	4.0%	-	2.4%	2.1%
Vacant and available stock (GN)	-	1.8%	0.7%	0.8%	0.8%
Vacant and not available stock (GN)	-	2.2%	1.4%	1.6%	1.2%

Source: Housing Corporation Statistics 2007 (Housing Corporation web).

**Figure 8-4   Vacant dwellings 2007: Midland Heart and other West Midlands
Associations**
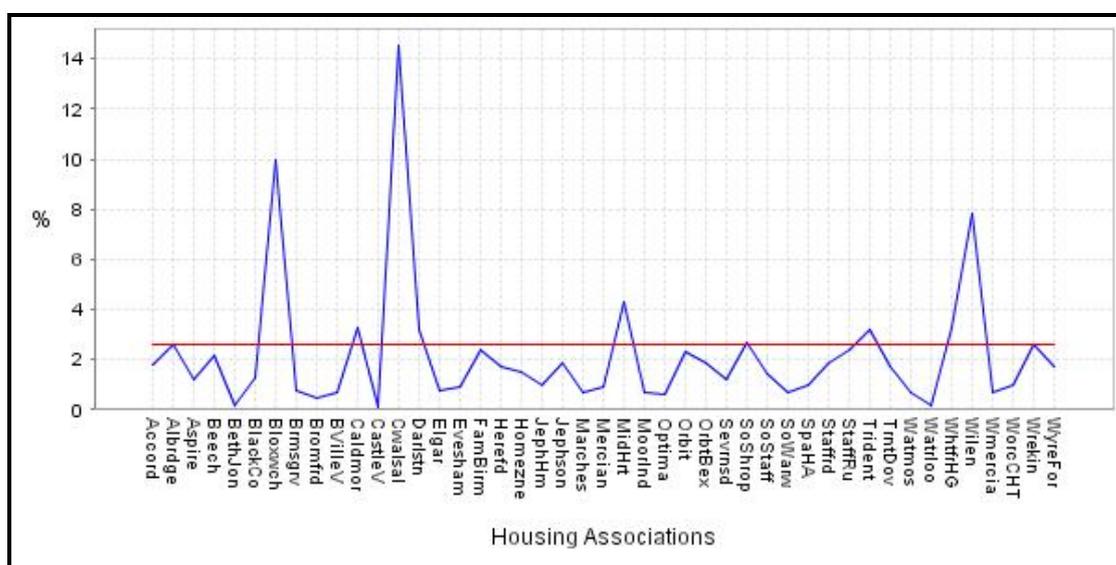
Source: Housing Corporation Statistics 2007 (Housing Corporation web).

The Decent Homes Standard

The Decent Homes Standard (DHS) was introduced in 2001 as a new standard of acceptable
housing conditions in the social housing sector. It applies to both council and housing

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association properties and the government's target is that all social housing should meet the DHS by 2010. To be 'decent', the government says that 'a home should be warm, weatherproof and have reasonably modern facilities'. Social housing organisations have programmes to bring their properties up to the DHS, and although it is unlikely all will achieve the target by 2010, the DHS is important as a basic standard for social housing. Nationally in 2007, the mean average for housing associations in England was that 13 per cent of dwellings did not meet the Decent Homes Standard, just slightly less than the figure for Midland Heart of 14.4 per cent of dwellings below standard Looking at 'Other West Midlands Housing Associations' in Table 8.6, there was a decline from 13.7 per cent in 2006 to 8.9 per cent in 2007 of dwellings failing the DHS, which suggests that many associations in the region are making good progress towards the target date of achieving the DHS for all their properties by 2010. Figure 8.5 shows that, at regional level, 11 of the 45 West Midlands housing associations were above average in their percentage of properties failing the DHS but Midland Heart's percentage was the lowest in this group of associations. The Housing Corporation Assessment for Midland Heart notes that:

'The group has been successful in increasing the level of stock achieving the Decent Homes Standard from 77 per cent as at March 2006 to 86 per cent as at March 2007 and is expecting this to improve to 92 per cent in the current year and full compliance in 2009' (Housing Corporation 2007: 4).

Table 8-6   Stock failing the Decent Homes Standard 2006 and 2007

Asset condition	Midland Heart		Other West Midlands associations		National Mean Average
	2006	2007	2006	2007	2007
Failing decent homes standard	-	14.4%	13.7%	8.9%	13.0%
Average GN SAP rating	-	62	65	67	69

Source: Housing Corporation Statistics 2007 (Housing Corporation web).

The SAP Rating (Standard Assessment Procedure) is a means of measuring the energy efficiency of a dwelling, on a scale from 1 (highly inefficient) to 100 (highly efficient). From Table 8.6, it can be seen that Midland Heart properties were rated below the regional average which itself was slightly below the national average. It is likely this reflects the presence of a higher proportion of older housing in MHs portfolio, compared with many other associations in the region.

Figure 8-5   Stock failing the Decent Homes Standard 2007: Midland Heart and other West Midlands Associations
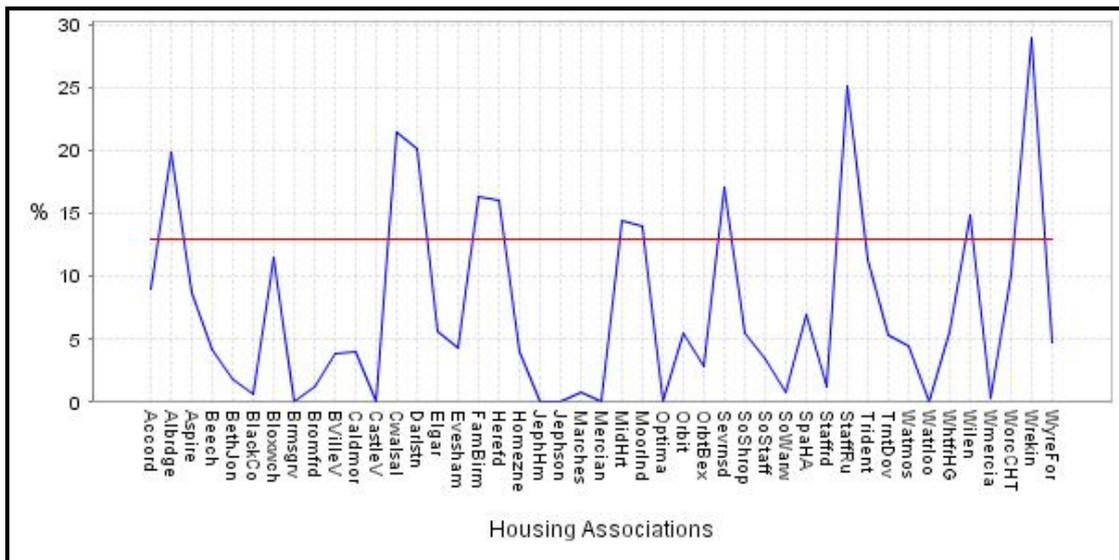
Source: Housing Corporation Statistics 2007 (Housing Corporation web).

Routine repairs

Table 8-7 shows the proportion of routine repairs completed within target periods that are set by housing associations themselves: in the case of Midland Heart and other associations in the West Midlands, the period is 28 days.   Figure 8-6, with its more detailed comparison of associations' performance in the West Midlands, shows little variation around a regional average of about 95 per cent for routine repairs completed within target.

Table 8-7   Routine repairs completed within target 2006 and 2007

Repairs performance (managed stock)	Midland Heart		Other West Midlands associations		National Mean Average
	2006	2007	2006	2007	2007
Routine repairs completed on target	-	95.0%	94.4%	95.4%	94.0%
Routine repairs target days	-	28 days	27 days	28 days	

Source: Housing Corporation Statistics 2007 (Housing Corporation web).

Figure 8-6   Routine repairs completed within target 2007: Midland Heart and other West Midlands Associations
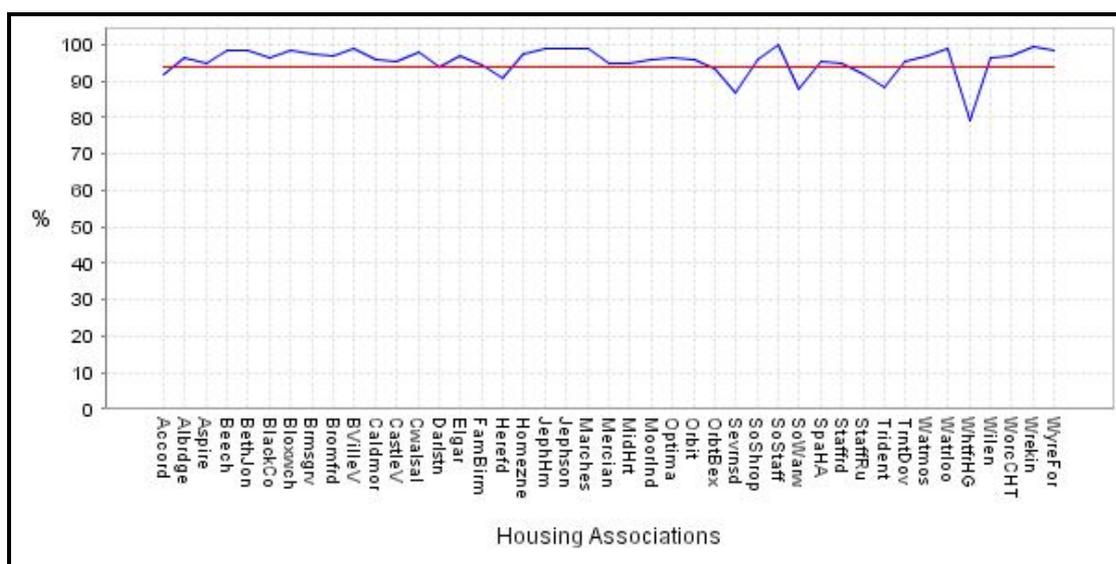
Source: Housing Corporation Statistics 2007 (Housing Corporation web).

8.3.3 The Housing Corporation Assessment report

The Housing Corporation published its first annual assessment of Midland Heart in 2006 and its second in 2007. As noted in previous chapters, the Housing Corporation Assessment (HCA) uses a 'traffic light' system to illustrate the Corporation's assessment of the association's compliance with the Regulatory Code and development performance. The emphasis of the HCA is on the assessment of risk. It asks if the association is viable, properly governed, and properly managed; and reviews the delivery of development that is funded by the Housing Corporation.

Viable

The HCA for Midland Heart published in 2006 concluded that:

> The association meets the expectations set out in the Regulatory Code in terms of financial viability, however exposures exist which make it vulnerable to deterioration (Housing Corporation, 2006: 3).

By 2007, the HCA was considerably more positive:

> The group meets the expectations set out in the Regulatory Code in terms of financial viability (Housing Corporation 2007: 4).

The 2007 report comments favourably on some of the consequences of the merger, which was seen to have brought efficiency savings, benefiting the repairs programme, the asset management strategy generally, and the proposals for future development. The report concluded:

> Overall the financial forecasts indicate that following the investment in stock over the next two years there should be an improving level of financial

viability in the medium term with increasing operating margins and surpluses. However, in order to achieve this, the group will need to deliver the development and improvement programmes and achieve the forecast level of property sales required to fund the programme. Over the last year the group has demonstrated an ability to achieve this (Housing Corporation 2007: 5).

The assessment of MH's compliance with the regulatory code's requirements for viability enabled the Corporation to give a 'green light' to this aspect of performance.

Properly governed

In both the 2006 and 2007 assessments, the Housing Corporation concluded that in Midland Heart, 'the governing body, supported by appropriate governance and executive arrangements, maintains satisfactory control of the organisation'. Perhaps inevitably, the 2006 assessment had much to say on the processes and procedures being followed to harmonise the governance arrangements within the newly merged association (Housing Corporation 2006: 5-6). By 2007, however, it was sufficient for the HCA to note the size and composition of the main board; the management and board arrangements for the four companies that are the managing agents for Midland Heart; and the measures in place for ensuring the smooth working of governance arrangements throughout the group. The HCA also comments favourably on the promotion and monitoring of equality and diversity within Midland Heart. For example:

The group continues to demonstrate a high level of success in lettings to BME tenants, which as a whole significantly exceeded the average local population percentage. BME staffing levels are 32 per cent. The group continues to prioritise community cohesion and working with BME communities (Housing Corporation

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2007: 6).

The Corporation assessed MH in terms of 'properly governed' with a 'green light'

Properly managed

The Corporation is concerned with the quality of service delivery to tenants and the performance of services in terms of the 3Es. Its view on whether Midland Heart was properly managed was that it 'generally meets the standard expected given the context in which it works and the available resources' (Housing Corporation, 2006:6 and 2007:6)

The 2006 HCA includes quite extensive and sometimes critical comment on the performance of the two housing groups that came together to form Midland Heart and concluded:

> Overall we would expect to see fairly rapid improvements in the service delivery performance of the new association and a reverse of what appears to be declining trends in performance (Housing Corporation, 2006: 8).

The Housing Corporation Assessment in the following year, 2007, might be said to give the benefit of the doubt to Midland Heart:

> We carried out an assessment of performance indicators for the precursor associations up to the period ending March 2006. Performance across the group was mixed, some parts of the group had made significant improvements but others were declining. Midland Heart are monitoring all performance indicators and…addressing poor performance (Housing Corporation, 2007:7).

Notwithstanding these reservations, the HCAs in both 2006 and 2007 gave a 'green light' to

Midland Heart as a 'properly managed' association in terms of the Regulatory Code.

Development with Housing Corporation funding

In 2004, the Housing Corporation introduced a new approach to the allocation of funding for development by housing associations in England. Instead of individual associations each bidding to the Corporation for development funding for the following year, the Corporation chose a small number of 'development partners' from among the larger and financially secure associations, who would act as a channel for HC funding, not only for their own development but also for development by smaller 'developing associations' within a local partnership. Both Prime Focus and Keynote Housing Group were 'development partners' from 2004 and when the two groups combined, the newly-formed Midland Heart continued as a development partner. The partnership also included Family Housing Association Birmingham. In April 2005, the second year of the 2004/2006 pilot partnering programme, the Midland Heart/FHA development partnership was given an allocation of £4.6 million, being the Housing Corporation's contribution to the cost of the partnership building 258 new housing units across the West Midlands. The balance of funds required was to be raised by the associations from the private market. Commenting on the development progress achieved in 2005/06, the Corporation evaluated MH as follows.

> The association's performance is satisfactory. It delivers housing that meets our standards but has not met all of its targets over the past year. However, the shortfall was relatively small and was caused by circumstances outside its control. The association keeps the Corporation fully informed of problems and keeps its in-year forecasting up to date (Housing Corporation, 2006: 8).

In the HCA published a year later in 2007, the Corporation noted that Midland Heart was now the lead partner of a development consortium which also included the Festival Group, Brighter Futures and Coventry YMCA, all of which are active in the West Midlands region. It was noted also that Midland Heart had strong links with the Urban Living Pathfinder area (Birmingham/Sandwell Housing Market Renewal Area). The partnership had an expenditure target for the two years 2006/08 of £16.7m, intended to contribute to the achievement of 582 completions. Its performance was strongly endorsed in the HCA:

> The partnership targets for the first year of this programme to the end of March 2007 have been exceeded. There was some slippage during the year, however, the partnership was able to bring other schemes forward to ensure targets were met. Additional schemes were also provided to assist with regional and national spend. Midland Heart as lead partner communicates well with the Corporation and has worked hard to ensure that the programme is monitored pro-actively. Forecasts are regularly updated (Housing Corporation, 2007:8).

In awarding a 'green light' for development in both 2006 and 2007, the Corporation said in 2007 that Midland Heart 'demonstrates a good performance by achieving or exceeding its annual targets, maintaining good progress against targets during the year and delivering quality housing that meets our standards' (Housing Corporation 2007:2).

8.5 Concluding comments

Midland Heart is both an old and a new housing association. It is also very large, working mainly in the West Midlands region and across 33 local authority areas. Its origins lie in the

1920s but it is a newly constituted body following the merger in 2006 of the Prime Focus and Keynote Housing Groups. Although an active developer of new housing, Midland Heart also has a legacy of much older housing, some dating from the 19th century, which was acquired by predecessor associations such as Copec and Midland Area Housing Associations. In all these and in many other respects, Midland Heart is very different to the other case study association, Castle Vale Community Housing Association.

As a 'new' association, Midland Heart appears to have been treated sympathetically in the two Housing Corporation Assessments that have been published since the merger. There are many aspects of performance that are criticised but allowance appears to have been made for 'special circumstances', presumably associated with the merger. The 'good relationship' between MH and the Corporation is commented upon and the importance of MH's contribution to the regional housing development programme appears to be valued and respected by the Corporation.

CHAPTER 9

ANALYSIS

9.1 Introduction

This thesis is inspired by the questions of why housing associations measure their performance, how performance information is used, by whom and for what purposes; what factors have influenced the development of performance measurement, and how the performance measurement approach has changed the housing association sector. This chapter presents empirical findings from the case studies of performance measurement in Castle Vale Community Housing Association (hereafter CVCHA) and Midland Heart Housing Association (hereafter MH). It draws on a range of sources including literature review, documentary analysis and interviews with key actors, such as practitioners and Board members from the case study associations and academic researchers from the Centre for Urban and Regional Studies[21] (CURS). The chapter has four parts, linked to the central questions of the thesis as follows:

- Why do housing associations measure their performance?
- How is performance information used?
- What factors have influenced the development of performance measurement?
- How has the performance measurement approach changed in the association sector?

9.2 Why do housing associations measure their performance?

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[21] All with experience as board members of housing associations in the West Midlands region.

The fundamental question posed is why do housing associations measure their performance? This section explores the reasons for performance measurement in the social housing sector with reference to the principal players involved; it examines how the characteristics of the players explain the features of performance measurement in the sector, and how individual players, including housing associations, central government and the regulatory organisations, each with their own interests, can find a way to co-operate in the face of individual and sometimes conflicting interests.

To understand the need for performance measurement there are two basic realities: first, if they are to do their job and justify their existence, the regulatory organisations, the Housing Corporation [22] and the Audit Commission, need to have information from housing associations. The regulatory organisations which, in effect, also include central government, are able to control housing associations and to implement their policies for the housing association sector through performance measurement. Since 'acceptable' performance is the key to both registration and funding, the 'burden' of performance measurement has to be borne by housing associations whether they like it or not. Secondly, however, housing associations acknowledge the benefits of performance measurement as an important tool of internal self-management. In other words, they say they would do it anyway, as a mark of good practice, whether required or not by the regulators and the government.

To look more deeply into the reason for performance measurement by housing associations, this thesis uses the terminology of the principal-agent theory, even though the theory is not wholly applicable to the situation in the housing association sector. The principal-agent

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[22] Or its successors from December 2008, the Housing and Communities Agency and the Tenant Services Authority

relationship arises when a principal hires an agent, and where there are elements of performance that are reported to the principal because of asymmetric information, uncertainty and risk. However, in the case of the Housing Corporation and RSLs, or more generally a regulator and housing associations, it is difficult to say who would be the principal and who the agent. Is the agent the housing association? And is the principal the Housing Corporation? In both cases, the answer is probably 'no', since housing associations are independent organisations; also they are not hired by the Housing Corporation[23]. Another distinction is that the relationship between the Corporation and housing associations does not involve moral hazard. As long as the tenants pay their rent, the housing association is an agent of the tenants and there is no moral hazard for the Corporation. However, the Corporation controls financial allocations to associations; allocations are dependent on performance; and thus the Corporation requires performance information from housing associations. The ability to access funding is a big incentive for associations to perform. If they perform well, they are likely to be using their resources more efficiently; and this in turn leads to the allocation of further resources. Since the need for performance measurement is determined by the need both for regulation and for economy in the use of resources, in the case of the relationship between the Corporation and housing associations, a kind of principal-agent relationship can be said to exist. The reason why performance measurement in the housing association sector and the principal-agent relationship in particular, are receiving renewed attention nowadays is because of the importance of social accountability and performance information in the present political climate of the United Kingdom.

The following discussion focuses on the principal players involved in the process of

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[23] In terms of principal-agent theory, 'the principal is the tenants and the agent is the housing association' makes sense. And 'central government is the principal and the Housing Corporation is the agent even though it is independent from the central government' also makes sense. However, the Corporation is not the principal of housing associations, for the reasons given.

performance measurement in the housing association sector, the regulatory organisations and the housing associations themselves.

9.2.1 Regulatory organisation context

The main function of performance measurement is to provide the means of control to achieve the targets required by external and internal organisations. Flynn (1993) supported the view that performance measurement is a key part of strategic control. Bureaucrats are seen as 'self-serving'; their objective is to maximise their budgets and influence (Dunleavy, 1991: 154-173; Mckean, 1965: 498; Kimenyi and Mbaku, 1999). The main assertion of public choice theory is that individuals are motivated by self-interest when making decisions; and that this determines their economic and political actions. In this sense, the public cannot believe the government; and thus government, especially central government, attempts to control public/social organisations more closely. One of the case study housing association directors says:

> Performance measurement is still attractive as a control mechanism for government. Measuring performance can control the association's money to ensure social benefits for the tenants but without wasting money. It seems the government feels a need to control and motivate housing associations by regulating their performance. As housing associations are becoming larger, the challenge to them is going to become greater (Author's interview, June/08).

Housing associations are under a lot of pressure to deliver on the centre's targets. On the other hand, there are greater pressures on the centre and regulators to monitor the quality of housing associations' services. There have been some concerns in the housing association sector that the growing emphasis on performance has caused the growth of a 'regulatory

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industry', justified on the grounds that it highlights the importance of managing housing associations' risks.

The two case study housing associations both accept the responsibility placed upon them to answer for their work to the regulatory organisations. Performance managers in both housing associations see performance measurement as an essential tool for external regulators who want to use it mainly for improving the performance of their regulated organisations. It is also seen as an important and significant internal management tool. However, and most clearly since the Housing Act 1974, there is a culture of compliance within the housing association sector which says that, if the government or the Housing Corporation requires a certain action, then the associations will do as they are asked. For this reason, performance measurement is regarded, first and foremost, as a programme of central regulation.

Performance measurement in the housing association sector has been common practice since the 1974 Housing Act introduced 'monitoring' inspections for registered housing associations. In its present form, performance measurement is mainly for reporting and monitoring within and outside the associations and is driven principally by a desire to keep spending under control. However, apart from controls on expenditure, the Housing Corporation is able to intervene in other ways in the work of housing associations. For example, the creation of Midland Heart could not have been achieved without the support of the Housing Corporation, which means that the merger had to be consistent with Housing Corporation objectives, as well as the wishes of the merging associations. In this respect, performance monitoring is indicative of a wider form of direct rule of housing services by central government, via the Housing Corporation.

The Housing Corporation (now succeeded in this role by the TSA) and the Audit Commission review the performance of housing associations at least every three years using a performance indicator approach. An important criticism levelled at the Corporation was the tension created by its dual role as regulator and funder. The government took note of this criticism in two important ways: first, when the responsibility for housing association inspection was transferred from the Housing Corporation to the Audit Commission in 2003; and second, in the Housing and Regeneration Act 2008, which gave regulatory responsibility for housing associations to the Tenant Services Authority and funding responsibility to the Homes and Communities Agency. One of the housing professionals expressed this criticism as follows:

> It is important to mention the dual roles between funder and regulator status linked to performance measurement through the traffic light system. This has created and brought extra pressures on housing associations as failure to get green lights across the board has led to exclusion from access to development money. This happened to the housing association of which I was a Board member (Author's interview, June/08).

At the time this research was done, the case study housing associations were being monitored by the Corporation and the Commission. Performance measurement in both associations has been a regular practice. They have measured their progress in delivering services and achieving the targets for key performance indicators. They have been required to submit survey documents, performance and statistical data to the regulatory organisations. The external inspectors have had a major influence on the two associations, and/or their predecessors, through the Housing Corporation Assessment and the Audit Commission's Housing Inspection. Over the years, this influence has grown as the performance

assessment systems have evolved from basic quantitative measurement to a more comprehensive framework of assessment. The assessment process now takes account also of external factors that influence the performance of the association.

While this thesis has not included detailed study of the regulatory organisations, it does appear that the regulated organisations make positive efforts to co-operate with the regulatory organisations in their in performance measurement processes.

9.2.2 Housing association context

Although the funding and regulatory organisations (central government, the Housing Corporation and the Audit Commission) require housing associations to undertake performance measurement, other significant reasons for it include the associations' responsibilities for meeting housing needs in the areas where they work. Related to this is an enthusiasm by the housing associations for performance measurement as a strategic tool in management, and a contribution to the widely held goal of 'continuous improvement'.

The case study findings indicate that performance measurement plays a role in performance management in the two associations CVCHA and MH, and that it has become more important for internal management purposes. One of the performance managers says:

> Managing a local government service is not the same as managing housing associations. Housing associations are on the middle ground between the public and private sector. With limited resources, it is important to improve efficiency and to provide high quality services. Also it is inescapable that housing associations should recognise their development depends ultimately on using

market principles and performance information in the process of service delivery (Author's interview, June/08).

Performance measurement is seen by the associations as essential to the development of specific management strategies. Housing associations seek to understand what they do; whether they do it well, badly or somewhere in-between; what they should or should not be doing; and what they should aim for and how to achieve it. One housing association manager says that:

> The performance measurement agenda was introduced by central government to implement performance measurement strategies into the housing association sector. However, I need to point to the positive effect of it on our side. It is absolutely worthwhile to be measuring performance. If we did not measure performance, how would we know what we are doing every day? It seems a sort of self-practices. If we are not doing well, it can tell us what problems we have and what areas need improving (Author's interview, June/08).

The main reason for performance measurement by housing associations themselves is to manage the organisation through helping performance managers to identify good practices, helping executives to set targets and demonstrating success or failure which is a significant part of self-management. Housing associations that conduct self-assessment use the results of the assessment in decision making. Growing performance pressure on housing associations has caused them to focus more on performance measurement. One of the housing association performance managers says:

> Housing associations need performance measurement as a management tool and indicator. It is a way of assessing how good we are as a landlord…. (Author's

interview, June/08).

Many performance managers express a desire to use performance measurement in their activities because of the contribution it can make to the improvement of performance and the delivery of effective housing services. One of the board members (2008, interviewed) asserts that trying to measure how well the association is managed is a key part of the housing management process.

> Every organisation, including housing associations, has to measure their performance for a number of important purposes. Our association has a performance measurement system. These objectives can make a positive contribution to [our work]. Performance information is a regular part of most reports provided to the board members. One of the functions of a housing association's board is to check that the association is meeting its targets and is performing satisfactorily. In this sense performance measurement is the only way that one can tell the board members and others [what is going on] (Author's interview, June/08).

According to the board member's view, there are several reasons why the association uses its resources for performance measurement. First, there is a close synergy between the association's focus and the core concerns of the funders. Second, the association's financial/economic/social accountability challenges the association's targets. It is argued that the association has benefited from building partnerships with funders and the regulatory system concerning economic measures alongside maintenance projects. Since 2005 the association has not received public funds from the Corporation, but the Corporation influences the association in various ways. For example, by influencing the shape of housing management strategies, performance measurement complements the tangible development of projects that are intended to develop the association's future performance.

Thus, there is a clear positive relationship between performance measurement and self-management in the association sector. In the two case study housing associations, there appears to be a significant link between the associations' capacity to achieve performance and their performance strategies in terms of organisational skills. A similar point emerges with regard to the importance of an association's administrative legitimacy and responsibility. The experience of the case study housing associations suggests that while pressure for regulatory legitimacy can be an important factor in introducing performance measurement, it is not a necessary precondition. CVCHA and MH both have a high degree of enthusiasm about the need for a performance measurement system as an indicator of the associations' self responsibility in the performance culture. This is not to argue that the introduction of performance measurement has little connection with the associations, but their enthusiasm about the need for performance measurement is important to the development of their performance measurement. Equally, the centrality of performance measurement may assist the effectiveness of the associations' business activities**.**

9.3 Using performance measurement information

The use of performance information for the purposes of performance measurement is an important matter. The research question in this context is 'how is performance information used?' In the present research, several uses can be identified. Both of the case study housing associations have collected and analysed performance data. The performance information consists of two components: quantitative and qualitative data, on matters such as service costs, stock condition and tenants' views on the associations' effectiveness. Using performance information can be an incentive to develop management strategies for housing

associations themselves and to develop a comprehensive method for the measurement system itself. Ideally, the measurement of social housing performance should cover the whole of an association's housing activities for improving social performance and achieving social goals. Briefly, performance measurement enables funders, regulators and tenants to understand what the quality of services is, while housing associations can use the results of performance measurement to check their own progress and as a basis for decisions that are performance-based, such as performance-related pay. Every publicly-funded housing association is subject to performance measurement, both internally and by external regulatory organisations, to assess what they have done, and to report the results.

> Performance measurement is a service. It is an internal service and an external service, obviously. It means that it is a tool for managers, regulators and customers. Housing associations have to produce and use performance information for themselves, the Housing Corporation and their customers as well (Housing association manager, Author's interview, June/08)

This section analyses performance measurement in terms of three purposes: external regulation, internal management and social accountability. First, however, it explains who uses performance information on the housing association sector.

9.3.1 Performance information used by whom?

The organisations using performance information most actively have been the regulatory organisations, the Audit Commission and the Housing Corporation, who have promoted a results-based culture in the housing association sector. The culture aims to increase the achievement of the 3Es in the sector, and thus to improve social housing service quality.

The approach has sought to apply the same tests and measures of accountability in both tenures of the social housing sector, namely local authorities and housing associations. The specification of the performance information to be collected has been grounded in a national debate about standards, targets and performance which play a central role in social housing management. From the regulatory organisation's point of view, performance information is a valuable resource for monitoring housing associations and ensuring their accountability. Performance evaluation also provides information to housing associations for decision making and organisational strategies.

The case studies show that the two case study associations are using performance information effectively. In both CVCHA and MH, performance information plays a role at all management levels. Because performance information is found to be useful, it continues to be developed and used, and thus the process is self-reinforcing. Its use is also encouraged by the support of the regulatory organisations.

The Audit Commission inspections and the Housing Corporation assessments have focused upon fiduciary accountability and management effectiveness. The Corporation has also set up a framework of inter-organisational comparison that is based on performance indicators. The Corporation collects performance information from individual housing associations[24] and publishes it against a set of national performance indicators. The performance information is certified by the external regulators according to recognised professional standards. Both case study housing associations have submitted annual financial accounts to the external regulators and the regulatory organisations have used the performance information to record and monitor capital expenditure themselves.

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[24] From those with more than 1,000 properties

From the point of view of holding managers accountable for performance results, staff involvement is essential in the process of using performance information. Staff need to understand how performance measurement works and how to learn from it in the services for which they are responsible. To achieve desired targets for service improvements, board members, executives and other staff use performance information. Senior staff will review performance information routinely, identify opportunities for innovation, and set new performance goals where appropriate, often as part of their day-to-day management responsibilities.

The two case study housing associations established computerised databases covering the routine information periodically required by the Corporation and the Audit Commission. Midland Heart developed a training programme for using performance information that involves performance managers and other staff from across the association. MH also publishes performance information as part of its policy of openness about matters such as how tenancies are allocated, what the association has done during the year, and whether it has given value for money. This is available on-line and in published documents, such as annual reports and regular newsletters, and is accessible to everyone, including tenants, board members and employees, all of whom, in the opinion of MH, are entitled to clear information about the association's responsibilities and activities. Meanwhile, the Chief Executive uses performance information, for example, to advise the Board on actions and decisions that will assist MH to meet its aims and objectives.

Drawing on the experiences of the case study housing associations, there are three levels at which performance information is used:

- The *macro* level: the use of performance information by the regulatory organisations in monitoring and regulating housing association activities;

- The *meso* level: the use of performance information by housing associations themselves for internal decision-making, organisational strategies and strategic thinking; and

- The *micro* level: the use of performance information by tenants for ensuring the accountability of their association as landlord.

Thus, performance information is used in regulating and managing associations and in contributing to their accountability as landlords. CVCHA, for example, developed a performance measurement system after it was formally constituted in 2004. This is seen not only as an excellent management tool for improving performance, but also as a major element in developing CVCHA as a publicly accountable social business. Although the originally envisaged main users of information from the evaluation systems set up by the Housing Corporation and the Audit Commission were expected to be the regulatory organisations themselves, it is clear that the information is also extensively used to hold housing associations more accountable, both internally and to their tenants, for their activities and management.

9.3.2 External regulation purpose

Performance measurement is normally thought of as government regulation of public-funded organisations. Central government has developed regulation to exert pressure on housing associations (Pawson, 2006: 771). Since the early 1970s, the government has expanded the

use of auditing as a means of controlling public expenditure in an attempt to improve the quality of social services. In the late 1970s/early 1980s, an expanding role was foreseen for external auditing of the social service sector and soon, performance measurement became common practice to control public-funded organisations (Ospina, Grau and Zaltsman, 2004:230).

The notion of regulation for performance leads inevitably to a performance measurement system. In the literature on this issue, there are many definitions, but Talbot (2005: 494) synthesises most of them through a common idea:

> The focus of performance systems on organisations clearly has advantages: it allows performance to be related to resourcing and accountability regimes and it allows for application of performance models and techniques from the private sector. It can therefore be a powerful tool for controlling organisations.

The initial development of relationships between housing associations and regulatory organisations requires the adoption of formal and informal control systems for evaluating routines and practices for accountability, with measureable evidence.

In the English social housing sector, housing associations submit certified annual accounts to the Corporation, and the Corporation supervises and monitors the housing associations through performance assessment reviews. The Corporation reviews the performance of the associations based on periodic performance information.

For instance, CVCHA produces performance statistics to submit with the annual accounts. These statistics have been developed in recent years. Comparing performance has become

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increasingly important as a means of establishing a true view of the association's financial position and making comparisons with other associations. The availability of this information on the internet enables external regulators, all staff of CVCHA and tenants to compare the financial condition of CVCHA with its peer group. CVCHA makes good use of this comparative information.

While relations between the regulatory and regulated organisations in the housing association sector become more professional and cooperative, they are still hierarchical and involve a number of difficulties. One housing association director says that:

> The performance measurement framework is moving, but there are still over-regulated activities and hierarchical pressures and conflicting requirements from the regulatory organisations. Even though they know it is difficult to compare and measure performance because of a number of different factors, their intention is to drive us to have best performance through performance measurement, especially comparing our performance with that of other housing associations locally and nationally (Author's interview, June/08).

For the Housing Corporation Assessment and the Housing Inspection, the regulatory organisations, the Corporation and the Commission, rely on the accuracy and completeness of information provided by the associations. All of the assessments have to be delivered within the financial year. The information required is:

- Audited annual accounts;
- External auditors' management letter;
- Annual self-assessment of compliance with the Regulatory Code;

- Internal controls assurance statement;

- Business plans;

- Financial returns;

- Performance indicators; and

- Regulatory and statistical return.

All the information returned relates to the pursuit of public accountability and the role of the regulators as a watchdog for taxpayers' money. However, one of the professional experts in the housing sector says:

> There have been some concerns in the sector that the growth and complexity of housing associations, particularly around the type of financial packages they have entered into to fund new housing, have stretched the capabilities and influences of regulators to manage the whole system. A good example of this is the recent case of Ujima Housing Association which went bankrupt [in 2008]. The Corporation are currently reviewing this and looking to see if there are any lessons that can be gained for regulation and performance management systems (Author's interview, June/08).

To summarise, the main external purpose of performance measurement is to implement performance management strategies, an approach that has been long accepted in the housing association sector. The Corporation's attempt to make housing associations more performance-oriented through the introduction of self-assessment was partly to emphasise the dual benefits of the system to both the regulator and the regulated; but also to minimise the inhibiting factor that government organisations tend by nature to be inherently controlling. An approach that suggests 'we're all working together for a common purpose' was considered to be more effective in gaining cooperation than one which suggested the

dominance or supremacy of the regulator, even though that may more accurately have reflected the reality of the situation.

For the associations, as already noted, the emphasis on performance measurement influenced them in adopting a more 'business-like' approach. For example, as explored in earlier chapters, the process of performance management starts with a performance planning stage at the beginning of the financial year, which is followed by monitoring and measuring, developing, rating and rewarding. It means performance measurement helps to formulate the next steps for the organisation, rather than being the final aim: it is the means to effective management, rather than the end. As the management performance of housing associations in England has been subject to closer scrutiny (Cope, 1999), performance measurement as a part of performance management processes can be designed to make full use of empirical evidence and feedback.

9.3.3 Internal management purpose

This section examines how the two case study housing associations use performance information to improve their management processes and to establish an understanding of what is 'good' and what is 'poor' performance. It is important to note that the terms 'performance measurement' and 'internal management' are often used synonymously. This is understandable because the two terms are closely related. In particular, using performance measurement has been important as a 'key day-to-day management activity' (Audit Commission, 2002: 5). It means that using performance information can help to improve the process of service delivery rather than being directed mainly at complying with legislation.

Using performance information for internal management is a prerequisite for an effective association. For instance, the use of performance information is seen in the two case study associations as an essential part of decision-making and learning. As one manager said:

We have to operate as businesses and preferably as more social businesses. We have to measure things to see how well we are performing. So, performance measurement, particularly KPIs (Key Performance Indicators) is basically a managerial tool to manage and to respond to the Board. Month to month we need to react and react and react and then quarterly we have to look back to reflect it in the future plan. Measuring performance is a snapshot, but it is important to set the target and business strategies (Author's interview, June/2008).

Both case study housing associations link their performance information to the organisation's strategy, including the budgetary process. Using performance information is important to learn lessons from the past and identify opportunities for improvement in the future delivery of services. From interviews with performance managers, it was clear that performance measurement is defined as using performance information as part of internal management that reflects the ability of a housing association to define and meet their own targets. A performance manager from a case study housing association (Author's interview, July/08) said

'I do not think performance measurement is the only aspect of internal management, but using performance information is the most important factor. We emphasise using performance information, at the same time, performance information encourages greater emphasis on internal management, for instance planning and

management strategies. It offers a good indication of what is working and what is not good'.

For instance, CVCHA uses performance information for many purposes, but a major factor in the use of performance information is to motivate the association itself for improving performance. CVCHA has used performance measurement to set management strategies in order to achieve its desired goals. It means that a plan for how the association operates is set by how its staff react to performance information. Performance information, acquisition and analysis are significant elements in strategic management and control system effectiveness. One of the board members mentions that:

Performance management in Castle Vale is about using performance information effectively. If you do not know how well or badly you are performing and what you have done in a financial year you cannot identify the scope for improvement. Performance measurement can be a mirror (Interviewed in 2008).

Performance management is seen as integral to all service processes and a key issue is to link up management processes including planning, strategy, review and feedback. One of the board members interviewed in 2008 says CVCHA has developed the performance measurement system and evolved it to include various aspects.

Performance measurement has been developing over time and it has become an important concern among board members and CVCHA staff. It seems difficult to have correct things being measured and presented and it is quite difficult to answer the question 'does performance measurement improve the performance of the association?' positively. However, CVCHA has adopted multi-range key performance indicators for measuring the performance of the association. It is to do

thing like comparing: comparing the outcome of management against costs and comparing with other organisations, particularly its peer group. It is important to know what this association has done in the financial year. CVCHA intends to deliver good performance in achieving the key performance indicators (Author's interview, June/08).

At the time the case studies were undertaken in 2008, a key aim of performance measurement was to examine the recently completed stock management strategies. For instance, through using performance measurement systems, Midland Heart found new approaches to financial savings when improving and repairing properties. Midland Heart has made big changes in its performance management culture, even though it has a short history. When MH was created as a merged housing association in 2006, a decision was made to promote performance management as a priority area of management and to link its aims to performance measurement processes. MH believes that performance measurement helps it in running and improving its services and follows a process of performance assessment that is based on the performance guidelines set by the Housing Corporation. This enables MH to promote service improvement by conducting performance measurement, comparing performance with its peer group and demonstrating that MH's services are competitive.

Performance measurement has a significant effect on both the case study housing associations. Their work is serious and important. Housing associations expect (and are expected) to run a business whose primary aim is improving performance. Their housing assets and estates must be run well to be attractive to tenants. Tenants may choose another landlord if they are not satisfied with the service. The challenges faced by housing associations include housing management, and the adoption of private sector practices and values, such as performance measurement strategies. Housing associations have also used performance information as a

means of communication with tenants, enabling associations to improve accountability through feedback to its principal customers, the tenants.

9.3.4 Social accountability purpose

Social accountability is an extremely important concept in performance measurement, but is difficult to define and measure.   The concept may be vague, but it reflects what performance measurement is really for.   Social accountability is the housing associations' main response to the English housing problem.   Central government introduced market principles into the social housing sector, thus obliging housing associations to emphasise financial performance and encouraging them to adopt a strongly pro-market stance.   But housing associations, with their independent and voluntary traditions, and their emphasis on providing for housing needs, are different from the private sector and the differences are both highlighted and symbolised by their commitment to social accountability, including value for money.

Grounded in performance management literature, this section identifies the aims of measuring the performance of the social housing sector in terms of social accountability. Performance measurement is an important tool to ensure the accountability of performance to the public, in particular tenants and the association itself - whether it happens in the public domain or internally within an association.   Invariably, it is seen as a top priority in the delivery of social housing.

Measuring social accountability is a means of evaluating the relationship between social activities and business performance.   The goal of securing social accountability is to demonstrate the intrinsic value of social housing activities and the quality of an

organisation's business performance.   But difficulties of definition and measurement remain.

'Good performance' is often measured in terms of value for money but the most important

aspect of performance in the social housing sector is the quality of the housing services that

are provided, measured in terms of tenant satisfaction.   Performance measurement is a key

element in the interaction with tenants, especially when looking at service delivery from the

perspective of 'satisfaction'.   One of the housing association directors says:

> We look at the value for our customers.   It is important to give priority to what is
> the best for customers to make them happy over what KLOE might ask for.   We
> do not want a situation where we score very well only against the KLOEs that we
> want to focus on (Author's interview, June/08).

After many years' experience of a performance management regime, housing associations

recognise that 'performance' is measured not only in financial terms but also in terms of

social accountability.   Being socially accountable means not only meeting legal

requirements but also involving tenants and reflecting their views in the management and

delivery of services.   A housing association performance manager says:

> Because of the difficulty of measuring qualitative performance, housing
> associations developed a number of methods to measure tenant satisfaction, such
> as face-to-face interviews, large postal surveys and telephone surveys.
> Measuring their satisfaction is the difficult part; getting the data to show that
> we've improved it is more difficult.   In terms of social accountability, tenants
> pay for a service, they have a right to know we are spending that money wisely
> and that we can produce information to demonstrate our performance.   Usually
> this is the only information the tenants have (Author's interview, June/08).

Housing associations are both accountable *and* responsible for social housing services.

However, accountability is not the same as responsibility and it could be that housing associations which are answerable for an outcome are more accountable than those that report their conduct and performance.   According to Chapters 7 and 8, the analysis in this research suggests that CVCHA is more accountable for its services than MH.   However, this could be debated because of the limitations in using qualitative data for measurement purposes.

CVCHA has been promoting tenant participation as a strategy to reflect its tradition and philosophy.   As a result, many tenants' comments which are dedicated to social housing service deliveries, such as keeping the community safe, cleaning roads and increasing tenants' satisfaction with services, have been acted upon in the process of delivering housing services, and indicate the tenants' managerial awareness about their housing association.

One important reason for securing social accountability is the formal attempt to make tenants satisfied that a housing association is performing to achieve its goals, based on knowledge and supported by quantitative and qualitative performance data on tenant satisfaction. Accountability to tenants can be achieved mainly through 'the principles of openness, accessible information and consultation' (Cope, 1999: 91).   It means the issue of accountability is linked to performance measurement processes.

Performance measurement should focus on the agreed outcomes for tenants.   For accountability to tenants, performance measurement will be designed to show whether the (reasonable) expectations of tenants have been achieved.   It is important that performance measurement can raise tenants' awareness of performance issues.   Accountability is a fundamental concept in both the two case study housing associations and is viewed with enthusiasm, according to one of the Board members:

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I think an issue that has been important is the trend to include residents within the performance/regulatory community in recent years. This housing association has set up a system to include the views of residents as part of their formal inspection reviews. I know that it is more important than evaluating financial performance and a housing association should incorporate residents/service users within its internal performance management systems (Author's interview, June/08).

The increase in the rate of tenant satisfaction shows a clear picture of what is happening in two case study housing associations. According to Chapters 7 and 8, CVCHA exceeded but MH was below the national average attainment level in 2007. MH's 'tenant satisfaction overall' was 71 per cent compared with the national figure of 79 per cent. By contrast, 'tenant satisfaction overall' at CVCHA was 85 per cent in 2006/2007, an indication of the commitment shown to this at CVCHA, for example, through its tenant satisfaction surveys and the links made between tenant satisfaction and social accountability. The comparison also reflects the characteristics of each housing association. CVCHA is a 'community housing association' and although MH is 'passionate about communities' it cannot have the same close relationship with its large number of tenants in widely scattered housing developments that CVCHA enjoys. So in spite of the general agreement in the literature that housing associations are concerned first and foremost with social accountability, the effectiveness of this, as shown by the two case study associations, is influenced by their individual characteristics.

Commenting on the approach to social accountability by CVCHA, the Housing Corporation has said:

CVCHA has a committed management team which works hard to maintain good working relationships on the estate and also with the various partners with whom it works. Making tenants understand what it is going on inside this housing association may be an easier way of securing social accountability. Therefore we need to consider how they feel about our services (2004: 5; 2006: 5).

The emphasis on accountability is appropriate for a community-based housing association. Tenants are involved at the decision making stage, there is an open availability of performance information, and there are relationships of trust with other organisations.

MH has used performance information in its plan to provide tenants with a clear picture of its activities. From the interviews, it is clear that accountability is given greater emphasis in practice than indicated by regulation. One of the senior executives (interviewed in 2008) says that:

Accountability involves the whole process and objectives that MH manages through its diverse work within and outside this housing association (Author's interview, July/08).

MH is aware of the importance of tenant satisfaction through the use of tenant surveys. Tenant satisfaction is defined by MH as the aspect of residents' views that is directly associated with social accountability for value for money. In turn, social accountability can be broken down into performance indicators. MH cannot reflect all residents' views expressed in the survey. However, performance measurement information, in particular tenants' satisfaction, provides Midland Heart with two essential clues about social quality: accountability to the public and responsibility to regulatory bodies and funders. A low score on certain aspects of MH's tenant satisfaction signals the need to develop a more effective

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strategy. According to the Housing Corporation's evaluation, tenants of MH are less satisfied with their dwelling condition than tenants in many other housing associations in the West Midlands.

Despite their different results for tenant satisfaction, there is little difference between the two housing associations in their commitment to the use of performance measurement with reference to social accountability.

9.4 Factors influencing performance measurement in the social housing sector

The research question in this section is 'what factors influence the development of performance measurement in the social housing sector?' The initial assumption of the research was that performance measurement would be influenced by various elements in the environment in which it was practised. To answer the question, therefore, it is necessary to specify the factors that influence performance measurement in the social housing sector. Typical factors are those that are external (institutional factors), internal (behavioural factors) and managerial (performance culture factors).

The effectiveness of performance measurement is of growing significance to housing associations. The focus is on the improvement of performance measurement systems within organisations and not on the performance of the systems themselves. There are three main issues. First, from an institutional perspective, an effective system of performance measurement needs to be robust, to ensure continuity, to be adequately resourced, and to take account of any special institutional considerations. Second, from a behavioural perspective,

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the design of the system must consider the people who will use it, whether assembling, analysing or acting upon the information collected. Finally, from the performance culture perspective, the system should encourage associations to achieve regulatory compliance, so they can create and sustain an effective business that is responsive to the regulatory framework in the context of self-regulation led by housing associations themselves (Housing Corporation, 2008).

These three factors are clearly related in that they contribute both to the development and to the practice of performance measurement.

- The institutional factor: typically plays an important role in the development of a sustainable performance measurement system.
- The behavioural factor: acknowledges that managerial attitudes and behaviour influence an organisation's performance management ability.
- The performance culture factor: contributes to an organisation's acceptance of and conformity to the performance management culture.

This section reflects back on the literature review of previous chapters in analysing the influence of each of these factors on the development of performance measurement. It develops a number of assumptions based on a theoretical framework that links the environment, (or circumstances) surrounding the housing association sector and performance measurement.

9.4.1 Institutional factors

Institutional factors (a concrete system and its continuity) and resource factors (adequacy of the resource arrangements) have a fundamental effect on performance measurement in practice. According to the literature reviewed in previous chapters, this section assumes that *providing a comprehensive and concrete performance measurement system positively influences the development of performance measurement.*

Performance measurement follows a structure - a formal set of rules and resources - which housing associations use for recording and reporting their activities. When performance measurement systems are well resourced, they can play a significant role in the social housing sector. The literature shows that a number of performance measurement strategies, skills and policies have been adopted in the housing association sector in England; and that their use has resulted in greater transparency about the process and outcomes of service delivery in housing associations.

Resources are important if performance measurement is to be effective. Both the two case study associations said they are seeking to set better systems and to allocate resources appropriately.

As regulator, the Housing Corporation has provided an extensive framework for housing associations' self-monitoring systems. According to Chapter 4, self-monitoring through self-assessment is seen as both a right and a responsibility in the housing association sector. Where there are differences of fact or opinion, it means that housing associations and the Housing Corporation try to reach a consensus on performance decisions. However, the dominance of the Housing Corporation in the relationship remains:

Even though the relationship between the Housing Corporation and housing associations has changed and become more professionalised, measuring performance is normally seen as government regulation of housing associations:

> The Housing Corporation still wants to know and to monitor how well we are performing against our own targets and…. intends to create effective systems to measure the performance of housing associations.   Their support is still important for developing more comprehensive measurement systems, for example, by creating good guidelines and policies, encouraging best practice and giving solid financial support (Performance manager, Author's interview, June/08).

The research found that, in the two case study associations, institutional factors provide an explanation for the importance of a robust performance management system, backed by adequate resources and a sense of continuity.   At heart, performance measurement is an instrument of government and the regulatory organisations are keen to implement managerial strategies and polices.   In this regard, performance measurement is a managerial expression of the government's strategic decision to impose a competitive market economy approach, which has significantly influenced the development of performance measurement.

9.4.2 Behavioural factors

For the case study housing associations, an important use of performance information is to support the attempt to achieve their aims in practice.   It is also a major element in the modernisation agenda that is influencing practitioners in the social housing sector.   In

accordance with the literature review, this section assumes that *the development of performance measurement is positively associated with staff behaviour in the process.* Managerial attitudes (interactive cooperation and its frequency) and behaviour (spontaneity and correspondence with target) have consistently been found to influence the development of performance measurement. The question of what behavioural factors influence the development of performance measurement will have to consider the case study housing associations' specific characteristics that may have influenced their 'modernised' approach to performance measurement systems. One of the main behavioural factors is the significant power of staff.

The belief that behaviour factors are the most important aspect of performance measurement is firmly embedded in the alternative view to the traditional concept of the organisation. The behaviour of staff has an impact on housing associations. For instance, an understanding by organisational actors of the relevance of the system, its purpose and usefulness seems to be the most important element of an effective system.

It is easy to see the behaviour factor encouraging performance culture in the two case study housing associations. It is clear that they both have a high level of enthusiasm for using performance measurement in the service delivery process, though this can be questioned in terms of housing association autonomy. For example, staff in MH, when given more central funding from the Housing Corporation, had to follow the bureaucratic approach of performance measurement. This does not signify a real enthusiasm for performance measurement and analytically, the distinction between spontaneous and bureaucratic wills is another issue. An issue in this research is about the genuineness of staff enthusiasm for performance measurement in the case study housing associations. One of the performance

managers says

> Of course external regulators have their own aims which can influence this
> association to build a performance culture. There can be some problems with staff.
> They may be busy with manual paper work, which means that it is difficult to take
> their work for granted. Fortunately, this association points out the importance of
> staff changing behaviour – particularly relating to performance measurement
> processes, key performance indicators and feedback (Author's interview, June/08).

The development of performance measurement in an organisation depends upon the quality, expertise and enthusiasm of its staff for using performance information. In this sense, the staff of CVCHA show that they aware of the importance of performance information and the building of an effective performance culture. A Board member in one of the case study housing associations described the enthusiasm:

> Staff involvement and awareness are essential in using performance information
> effectively to improve performance and promote performance culture. It is
> important that all staff are aware of the importance of performance information in
> this housing association. Staff in all positions need to understand the measurement
> process, how it will work, and what they have to prepare. This association also
> invests in producing guides, and providing training programmes to explain what is
> happening (Author's interview, June/08).

Referring to CVCHA, the Audit Commission expressed a view as follows:

Regular core and team briefs provide staff with key headline information and performance figures and help to ensure that staff understand the association's vision, aims and priorities (Audit Commission, 2006: 60).

In the two case study associations, the enthusiasm of staff for using performance measurement systems, in particular performance information, benefits managerial strategy and has helped to create a performance culture.

9.4.3 Performance culture factors

A performance culture requires 'critical reflection and questioning of existing practices, effective dialogue, collaboration and communication' (Sanderson, 2001). Although culture in performance management is often neglected or seen as a complication, the performance culture is essential if all staff and stakeholders are to be aware and to actively consider managerial issues in the process of performance management.

So far, this section has assumed that institutional and behavioural factors have separate yet related effects on performance measurement. But performance culture includes both institutional and behavioural factors, thus, this section assumes that *the ability to build performance culture positively influences the development of performance measurement.*

In the academic literature, performance culture is seen as an essential element for building an effective performance measurement system. Performance culture is built by the organisation itself, often in response to external influences which see performance measurement as a mark of good practice. In this research, it was found that CVCHA's

objectives are to protect the public purse, in particular community benefits, through improving the performance and the accountability of the association. Progress with these objectives is assessed through performance management grounded in performance information. Successful performance measurement requires strong executive support, cross-functional cooperation and ongoing use of the performance results. The application of findings to the service delivery process is particularly important.

What is meant by 'performance culture'? It can be explained in terms of how people within the organisation act, and what they say and think about the performance management process and its relevance. The culture is needed to build an effective performance management system. For example, housing associations may need to identify and evaluate 'the way we do it' and if this is found wanting, they will establish a new way of doing things. In this sense, performance measurement can be a useful source of evidence for change and a key part of the performance management framework based on a 'plan-do-review-revise' cycle. Outputs need to be measured using, for example, statistics, rankings and recommendations. A senior performance manager of a case study housing association made clear that:

> Performance measurement is a managerial tool for performance management, for it is true that the development of performance measurement is grounded in the growth of performance culture at the lower level, manager level and executive level as well. Of course, performance culture is a difficult issue because it is a controversial concept and difficult to build in practice, but it is necessary for us to improve our performance (Author's interview, June/08).

Performance culture is prominent in the ways the association tries to improve the quality of

its services effectively and efficiently and is often dependent on good communication, as the Audit Commission observed in its inspection report on CVCHA:

> The culture of the organisation encourages a focus on efficiency and effectiveness and staff are conscious of that focus. A staff survey has recently been carried out; staff commented that they view this as giving opportunity for frank and honest input into the organisation and as an indication of the positive and open culture. Communication arrangements are good. An initiate review suggests that staff are generally positive about their work and the organisation (Audit Commission, 2006: 55-60).

Performance culture is an essential context for performance management in both the case study housing associations. For many years, Midland Heart's predecessor associations have been associated with a 'cycle of change', which assumes that a 'planning' stage leads to a 'do' stage, then to a 'measuring' activity, a 'feedback' stage, and then back to a 'planning' stage. The use of performance information contributes to a management cycle in which expectations about service quality, value for money and performance culture are made explicit. MH has attempted to make its performance more visible and accountable through a performance management process. One of the senior officers interviewed in 2008 mentioned that MH housing associations have boosted their performance culture over the last decade. The housing associations were under increasing pressure to implement new performance strategies and managerial methods to reshape their services. Their response has brought significant changes to MH housing associations.

The new management culture in the housing association sector brought performance

indicators, targets, mission and consultation statements, tenants' newsletters, increased emphasis on provision of equal opportunities, and a bright spotlight on governance and accountability issues, into the daily vocabulary of associations (Midland Heart, 2006: 24).

A Board member interviewed in 2008 says there is a divergence between achieving financial performance targets and promoting performance culture and suggested that a cultural factor in social housing is too easily overlooked in focusing on increasing performance. In the member's view, it is also quite confusing what kind of culture housing associations should build and how to do it.

However, it does appear that the performance culture in the case study housing associations is an important influence on the nature of their activities. The majority of those interviewed for this research express enthusiasm about their work grounded in the performance culture. The prevailing culture is linked to economic and social performance, which are challenges faced by both case study housing associations.

9.5 Performance measurement and the changing approach of housing associations

The research question in this context is 'how has the performance measurement approach changed the housing association sector?' In the review of academic literature, performance measurement as a part of performance management has been emphasised by the importance of using performance indicators. It is important to note that, for housing associations, performance measurement is directly linked to performance management. Housing associations no longer measure their performance only to satisfy the regulatory organisations,

but also to clarify their mandates and goals, to identify strategic management issues and alternative ways to deal with them, and to improve their delivery of value for money. Assessing performance is a core business practice in the two case study housing associations, which, as social housing organisations, need to demonstrate their performance to regulatory organisations, funders and tenants. A senior performance manager of a case study housing association made it clear in the interview:

> In the past, we knew that the Corporation had a role as an agency of housing policy between the central government and housing associations, and as an institution for funding and regulating all RSLs in the social housing sector. We thought it was a heavy burden on the association sector, but now we realise that we have to work with the Corporation more cooperatively….. This means taking responsibility for the improvement of our performance by building a good relationship, even a partnership, and by helping to increase the awareness of our tenants and improving our financial performance (Author's interview, July/08).

The academic debate on the concept and approach of performance measurement has been discussed in previous chapters This section draws from practice, especially from the experience and approaches of the two case study associations, to review performance measurement as part of performance management. Performance measurement is seen as an approach rather than a subject. Of particular interest for this thesis is the somewhat different approach taken by the two housing associations, reflecting the ways in which each tries to maximise their own goals.

9.5.1 Performance measurement as a part of management

In the last twenty years, there has been a significant change in the nature of the relationship

between housing associations and their regulators in the performance measurement process. Performance measurement in the social housing sector in England has been a common management practice for a long time. Performance measurement was introduced mainly for the purposes of control and reporting within and outside a housing association. It used to focus on financial reviews, but now it is linked to strategic plans and to securing accountability and value for money. Over time, performance measurement has evolved from this traditional role to become a managerial framework for improving performance and creating a new type of social accountability. One of the housing association corporate directors says:

> The relationship between the regulatory organisations and housing associations has changed. They still regulate and they still want to know whether housing associations are financially right and well governed. But they have become good partners to support and encourage housing associations. Looking at the big picture, what we want to do is exactly the same as what the Audit Commission and the Corporation want (Author's interview, June/08).

The relationship between the regulatory organisations and housing associations in England has changed. However, it has not been possible so far to define exactly what change has occurred and to make firm conclusions about what this has meant for the performance approach within the housing association sector.

The meaning of performance measurement which was traditionally concerned with 'control' (such as the financial regulation) has become more concerned with supporting management strategies, such as management accounting and management information systems which are important for providing more effective housing services and achieving accountability. The

Housing Corporation states:

> We are looking to associations themselves to take primary responsibility for monitoring their compliance with the Regulatory Code, referring to us details of significant problems or events and their plans for addressing them (TPAS, 2008).

A relationship of trust appears to have been built up between housing associations and the regulatory organisations. As hybrid organisations, housing associations remained suspicious of social agencies but became willing to cooperate with their regulators, especially when taking new responsibility for their business environment. Interviewees from housing associations have no suspicion of the regulatory organisations' willingness to listen to them. A senior performance manager of a case study housing association made clear in the interview:

> We were under the serious pressure of an excessive requirement from the regulator. However, now we are under great pressure to bring forward effective cooperation with the Corporation. Without doubt, performance measurement becomes more commonplace and partnership becomes an important role for housing associations and the Corporation as well. We rely on each other very much. I am not sure, but it seems to be a true cluster grounded in trust (Author's interview, June/08).

This is evident in the change and development of management strategies in the housing association sector; and is consistent with what the performance measurement literature shows on how the use by social organisations of performance measurement systems, approaches and strategies has been changing in a number of ways. Drawing on the case studies, some of these changes are now considered, including the relationship between policy, regulators,

concepts and target groups.

The fact that both case study associations are based within the same city, Birmingham, provides a valuable contribution on the use of performance measurement. The research shows that two housing associations, though being part of the same 'movement' and sharing similar high level objectives, can have different priorities based on their different characteristics, and historical backgrounds. While both are committed to the use of performance information for performance management, the emphasis given differs between the two organisations. Some of the differences are explored in the following sections.

9.5.2 Castle Vale case study

One of main findings of the case study is the way CVCHA has used performance measurement to improve its performance and to manage in a more effective way. This came about partly because of the enthusiasm resulting from the success of the ballot to transfer housing management responsibilities from the HAT to CVCHA; and partly through a commitment to the public service modernisation agenda, with its ideas about concrete systems, social and finance-based strategies, and its support for the use of performance measurement to improve the quality of management in the social housing sector. Moreover, social accountability and responsibility had been a long standing feature of the CVCHA approach to service delivery. These themes and interests were brought together in the expanding organisation. In the view of senior officers, performance managers, and board members, performance measurement in CVCHA was seen clearly to have a 'managing role' in the affairs of the association, and this approach was supported, even commended, in the assessments and inspections of the regulatory organisations.

Table 9-1 summarises some of the roles that performance measurement has played for housing associations in England. Four identified role stances of performance measurement are characterised by a descriptive phrase, and are related to the control and social contexts within which performance measurement takes place. The framework developed here has four parts: a capturing role, an ammunition role, an answering role and a managing role. The 'capturing' and 'managing' roles are characteristic of a 'business-like' control context. The 'ammunition' and 'answering' roles fall within a 'political' control context. Thus, it might be said that in the early 1980s, when 'regulation' and 'performance' were imposed on housing associations and other social organisations, the context was clearly 'political', providing 'ammunition' for the regulators or requiring 'answers' to their questions. As the 'businesslike' context has become more important over time, the objectives of control are less threatening: they are about 'capturing' information or using it in a 'managing' role. The distinction between the two reflects the 'social context' of the organisation concerned, which may be 'low' or 'high'.

In the case of housing associations in England, the nature of performance measurement has shifted its focus from controlling the process of service delivery to one of supporting management. This is evident in the regulatory approach to self-assessment, which is used more as a management tool than as a means of controlling housing associations. The managing role is enhanced by new management methods, technical methods of assessment and the growing use of performance information in the decision making cycle.

Table 9-1   The classification of performance measurement in CVCHA

		Control context	
		Businesslike	Political
Social context	Low	Capturing role	Ammunition role
	High	***Managing role***	Answering role

Table 9-1 shows that present-day performance measurement in CVCHA is classified as having a 'managing' role, in contrast to other roles that might have been characteristic in past situations. This conclusion is based on the evidence from the case study, which shows CVCHA to be an association committed to its social management role and sense of social values, as exemplified in its published plans, in assessments by the Housing Corporation and the Audit Commission, and from the interviews with key officials and board members.

The current regulatory system is based on the Housing Corporation and Audit Commission analysing CVCHA's performance, but its value is entirely dependent on the relationship, and in particular the housing association's response, to the external regulation activities. In addition, the network form of partnerships dominated the performance measurement movement until recently. After emphasising partnership, the relationships between housing associations and related bodies, such as tenants and regulatory organisations, are based on rigorous analysis linked to financial and non-financial measures. CVCHA has developed a vital capability to manage its relationships with other key bodies. The Commission assessed the association's relations with other key players as follows:

> CVCHA makes excellent use of local partnerships. CVCHA makes local and
> other partnerships to develop services and improve the quality of life for residents
> on the estate, with CVCHA leading and driving much of the inter-agency work

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(Audit Commission, 2006: 58-59).

CVCHA has begun its own business planning cycle which reflects tenant views on the decision-making process. The association places great importance on tenants' views. It is committed to performance measurement as a form of self-assessment (in terms of accountability to external bodies such as the Corporation, the Audit Commission and tenants as well) rather than as a regulatory process. One of the performance managers says:

> Links between this housing association and tenant views, for example involvement and satisfaction, are required for housing association-led self-regulation to be effective, accountable and transparent to tenants. Through performance assessment, we are all, as staff, aware of ways to provide more accountability about the business to tenants, rather than [aiming simply] to control business processes (Author's interview, July/08).

Having adopted a tenant-focused self-regulation framework for performance assessment, the CVCHA structure draws together tenant involvement and social accountability across service areas. One of the directors says:

> We are aware that feedback from our tenants is a key part of performance measurement. We are aware of the need to work with tenants and to have a partnership approach to performance measurement. Obviously, changing the focus of performance measurement causes concern for social factors such as accountability, tenant satisfaction and value for money (Author's interview, June/08).

The Corporation and the Commission have developed a range of relevant indicators of management performance. CVCHA is one of the few resident-controlled housing

associations in England. The CVCHA case study has indicated that there are more examples and evidence of resident involvement in services than in other peer group associations in the West Midlands. Because of this, the level of tenant satisfaction is very high, according to the Corporation's survey. One of the performance managers says:

> Our current aims for measuring performance are to give more consideration to the satisfaction of our tenants and the benefits of greater tenant focus in the management of our business. We believe when we regulate ourselves, we take responsibility for this self-management and we take account of our tenants' views. Reflecting tenants' views and satisfaction is at the heart of our frameworks for directing, accounting for and monitoring our performance (Author's interview, July/08).

Another senior manager mentioned that it is difficult to make these changes: shifting from a situation where regulation is seen as a 'burden' to one where it is a key element in management is not easy. However, CVCHA has made significant changes in management: all costs are examined and reduced where possible, tenant satisfaction is a major priority, a new IT system has been installed, and management schemes have been reformed. Performance managers, Board members and directors in CVCHA also acknowledge that changes have been significant. The management-centred approach echoes the philosophy and recommendations of central government's call for effective 'tenant-centred assessment'. According to that recommendation, tenants should be active participants and their views should be seen not as an object for manipulation but as an important element in performance measurement.

9.5.3 Midland Heart case study

In many cases, MH's managers found that the old style of management is not appropriate to the new competitive circumstances. For example, performance measurement, traditionally, had been a matter of checking on and keeping expenditure within a budget. Performance measurement was seen as part of budgetary control, and a central government requirement, rather than part of organisational management.

This picture has changed. Through interviews with key players in MH, the case study has revealed the presence of a strong managerial culture in MH, which bears no relation to the traditional approach described above. There is a performance culture based on developing and implementing business strategies in the association.

Table 9-2   The classification of performance measurement in Midland Heart

		Control context	
		Businesslike	Political
Social context	Low	***Capturing role***	Ammunition role
	High	Managing role	Answering role

The situation of MH is summarised in Table 9-2. From the case study, Midland Heart can be classified as an association in which the control context is 'businesslike' rather than 'political'. Within this context, performance measurement is used to capture information for management purposes. There is strong enthusiasm in MH for performance measurement, and for its perceived ability to bring a market dimension to the social housing sector. Following the 2006 merger, it was relatively easy for MH to implement a performance management system across the new association and to use it as part of the process of bidding

for more development resources. Other advantages of the system for MH have been mentioned:

- It creates opportunities for new strategic thinking
- It promotes better use of the housing stock; and the improvement of performance, properties and living conditions for tenants.

The case study suggests that MH is less strong than CVCHA in its approach to social accountability, although social accountability is an important objective for MH. The main focus at MH, however, is on growth. This was a reason for the merger and for the continuing emphasis (at the time of the case study) on the benefits of further housing development. This is the reason for classifying the social context of MHs work as 'low' rather than 'high', when compared to the approach of CVCHA and taking into consideration, for example, the relatively low levels of MH tenant satisfaction reported to the Housing Corporation.

While it may be too early to analyse MH, given its short history as a 'new' association, there are two outstanding issues which remain from the case study. Firstly, MH as a new merger-type housing association is not always able to deliberate sufficiently on performance. It is a very big organisation, with a large number of properties spread over a wide area. It has many offices and a form of 'group structure'. It is still settling into being a 'recently merged' association. As the HCAs show, there are problems of low tenant satisfaction, low service performance and less efficiency. Secondly, the resource costs of providing the performance information required by the regulatory organisations is a heavy responsibility for MH. The association has tried to introduce a more commercial style of management.

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A general consequence is that the nature of MH has changed. In the 1970s, MHs predecessor associations were known for their emphasis on housing needs but more recently, there has been a more business-like orientation, with an emphasis on increased productivity, saving money by 'better' management, and the promotion of low cost home ownership through a non-charitable subsidiary.

9.6 Concluding comments

Underlying the analysis in this chapter is the assumption that performance measurement is beneficial to the case study housing associations and is not just a *post hoc* justification of government requirements and the efforts of the regulatory organisations. Clearly performance measurement activities influence intermediate outcomes (for example, organisational culture, staff behaviour and tenant satisfaction) and ultimately performance itself, which in turn influences outcomes for housing associations.

Performance measurement in the social housing sector, as seen in this study, is a practical subject providing housing associations with useful information for internal management, and regulatory organisations with useful tools for regulation, inspection and evaluating social accountability.

Many of the early concerns of performance measurement were with financial matters, and indeed these remain an important part of the process. However, as noted earlier, the extension of performance measurement to include qualitative aspects of performance, such as tenant satisfaction and neighbourhood issues, has been a welcome development in the social housing sector. Interest has grown in the social aspects of service delivery and housing associations have become more knowledgeable about and responsive to social factors.

One of the important insights gained from interviews with key players in the two case study associations is the coincidence of views on what housing associations should provide and build, and what tenants and other organisations want the housing associations to do. The boundary between the private and public sectors has been blurred by the increasing use of management approaches and this has to be seen as a positive outcome. On the other hand, the growing attention to matters such as accountability to the community, tenant satisfaction and tenant involvement further encourage the case study housing associations towards social accountability and value for money. This encourages the associations to be more managerial and more consumer-focused in their approach.

CHAPTER 10

CONCLUSION

10.1 Introduction

Performance measurement is a key feature of the public management reforms that have been introduced in Britain from the 1980s. This thesis set out to develop an understanding of performance measurement and its role in contemporary public service management. It has looked at the intellectual origins of performance management and measurement, and at the policy context within which they were introduced and have been developed. The focus has been on the use of performance measurement in the social housing sector in England, with particular reference to housing associations which in recent years have become the main providers of new social rented housing, and the managers and custodians of housing transferred to them by local authorities under a variety of government programmes sometimes referred to as 'voluntary transfers'. Housing associations now manage about ten per cent of the total housing stock in England and nearly half the social rented housing. Alongside this growth in activities and responsibilities, housing associations have been subject to an increasingly demanding regime of performance assessment and inspection, in line with what has happened elsewhere in the public sector in England and other parts of the United Kingdom.

Performance management is now fully embedded in the housing association sector. The literature reviewed in previous chapters has shown that performance management reforms are driven by an emphasis on the '3Es' (economy, efficiency and effectiveness) and 'value for money', or its successor 'best value'. In both the academic and policy literature, it has been

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argued that performance measurement plays a significant role in performance management, which aims to improve performance and to secure social value, for instance accountability, community and tenant satisfaction. The thesis has examined these claims through empirical research, involving case studies of two housing associations based in Birmingham, in the West Midlands region of England.

This concluding chapter uses the case study findings to summarise the answers to the research questions. It reflects the framework of the research approach by focusing on the objectives of performance measurement and the influence of the performance culture on the social housing sector. Performance measurement was introduced and, many would argue, imposed on the social housing sector but now there is a growing interest in its intrinsic benefits to public organisations themselves, not only for internal regulation but also as a means of demonstrating social accountability.

This chapter has three sections. It begins by reviewing the research findings. It then discusses the contribution of the thesis to the study of performance measurement in the social housing sector. Finally, it considers the limitations of the study and their implications for further studies in this field.

10.2 Review of main findings

This thesis posed four research questions: why do social housing organisations measure their performance; how is performance information used - by whom and for what purposes; what factors influence the development of performance measurement; and what has the performance measurement approach changed in the housing association sector?

The central conclusion of the thesis is that performance measurement, as a key element of performance management in the housing association sector, is a significant driver of the use of performance information in social housing management, in particular for decision-making on the delivery of housing services.

From the literature review, performance measurement can be seen as a complex and integral part of performance management in the English social housing sector. This conclusion is supported by the case studies of Castle Vale Community Housing Association and Midland Heart Housing Association which show how the two associations use performance measurement in managing, maintaining and developing their properties; and how important this is to the associations in their aim of delivering effective housing services.

The case studies also show that, although both associations strongly favour the use of performance measurement, their approaches are slightly different, reflecting the activities that are important to them individually. The organisational goal of maximising the benefits to be achieved is important to housing associations and is a crucial feature of the performance measurement approach, based on the use of quasi-market mechanisms to achieve maximum performance.

The thesis argues that, in considering performance measurement by housing associations, the relationship between regulatory organisations and housing associations is of central importance. The relationship seems to be based on the theoretical assumption of a principal-agent relationship, which, although it does not completely fit the theory because of the special character of housing associations, potentially provides an explanation for why

housing associations measure their performance. The literature shows that to function effectively, the principal-agent relationship depends significantly on how much information the principal has about the performance of the agent (Batley and Larbi, 2004). On this point, the relationship between the regulatory organisations (the Housing Corporation and the Audit Commission) and the housing associations is one of principal and agent in terms of the information available to the regulators through performance measurement.

Performance measurement information is used by the regulators to exert influence on and direct the activities of the providers of housing services (in this case, housing associations) and this further clarifies the relationship between the regulators and the housing associations. At one level, performance measurement has a relatively straightforward purpose as a tool that allows government to achieve its desired aims. But performance measurement also has a further purpose, namely in managing the activity of the housing associations themselves, both strategically and in day-to-day operations. As a managerial approach, performance-based control is different from the traditional bureaucratic top-down control. Because of the seemingly collaborative approach to performance measurement by the regulators and the regulated, central government and its regulatory organisations can implement their agenda, policies and priorities into the regulated organisations, for example, through performance indicators and guidelines, and thus achieve government objectives without appearing to set a top-down control line as to how services should be delivered. The Housing Corporation has been able to exert control indirectly but the process may be less collaborative in future, under the Corporation's successor organisations and the possibly 'tougher' approach of the Audit Commission to housing association inspection. There are indications of this in recent performance-based control, for example, analysing outcomes, setting standards, monitoring performance and comparing performance within a peer group. These tasks also have an

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influence on allocating finance and managing budgets.

However, performance measurement systems have often not led to effective control across the housing association sector. Even though the use of performance measurement is still on the increase by both the regulators and housing associations, the case studies found that ideas about performance measurement have focused more on the management reform agenda than on the external control of housing associations. For CVCHA and MH, performance measurement systems have had a positive impact on their management, bringing many practical benefits, and providing useful information, managerial sources and tools for self-management.

The original emphasis of performance measurement was on financial indicators and although these remain important, the introduction of qualitative as well as quantitative areas of assessment is a significant development, reflecting a growing emphasis on the inclusion of social factors, making assessments more comprehensive. Performance measurement has become important in modern welfare states, and consideration about the social impact of policies has developed as a reaction to the service provider-user gap. Evidence from the case studies shows that performance measurement can be used to bridge the gap by increasing tenant involvement and responses, and thus helping housing associations to achieve their social goals, in particular on social accountability and tenant satisfaction.

The research has revealed the hybrid nature of performance measurement, where managerial and social values currently prevail, in contrast to the traditional assumption of a dominant 'political control' role. In addition, the research has highlighted the different performance measurement approaches of individual housing associations, based on their characteristics,

priorities and culture. The nature of the management values adopted is closely linked to the organisational culture. Thus, the approach to performance measurement in use has come about under management strategies that are influenced by factors such as structure, behaviour and performance culture.

The history of the two case study housing associations has an influence on virtually everything they do, and their management approach and style have been determined by the paths they have taken in the past, including the recent past. This has led to differences in their performance management, their respective organisational cultures and their delivery of housing services.

The role of performance measurement has undergone significant changes in recent years. Moreover, the relationship between regulatory organisations and housing associations has changed, with more emphasis on partnership and less on hierarchy, partly reflecting changes in governance structures. This has led to a realignment of the regulatory hierarchies in the social housing sector, with the emergence of new types of networking regulatory structures, involving other partners or stakeholders. Housing associations expect and are expected to cooperate with other stakeholders in a regulatory network and therefore the measurement of housing association performance may be complicated by multiple and different objectives. From the interviews with key actors in the two case study housing associations, it can be seen that a changing performance measurement agenda is associated with housing associations' changing goals, objectives and interests.

Previous literature has not clearly defined why housing associations use performance measurement and what factors shape performance measurement in the social housing sector.

The gap is a main concern of this thesis, and the research sets out to overcome it. This is done through the approach used in Chapter 9 to classify the roles adopted by different types of housing association in their approaches to performance measurement The classification reflects the contexts within which the associations operate; their objectives; and the relationships they have developed with the regulatory organisations.

CVCHA's approach is characterised by a significant concentration on its social management role and attention to social values, as shown in the CVCHA plan. In the case of MH, the focus of performance measurement has moved from a former emphasis[25] on controlling the process of service delivery to one of supporting management. This is evident in the regulatory approach to self-assessment, which is used more as a management tool than a means of controlling the self-assessment process. As discussed in Chapter 9, a change in the role of performance measurement has encouraged housing associations to use it as a management tool rather than a means of capturing information for monitoring purposes.

Consequently, although both CVCHA and MH are committed to performance measurement, their approaches are different, reflecting their different organisational characteristics, goals and objectives; and the nature of performance measurement as a important element in organisational self-management.

The findings of this thesis have several managerial implications. The use and development of performance measurement continue to grow. This requires practitioners to direct more of their available resources towards performance management. In addition, the findings suggest that the ability to use performance information effectively is associated with a high

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[25] In the main predecessor associations before the 2006 merger that created Midland Heart

level of performance culture and the extent of practitioner enthusiasm for using performance information. Finally, the research raises questions about the emergence of different approaches to performance measurement. The *use* of performance measurement and the *aims* in using it can differ, depending on the characteristics of individual housing associations and the influence of various factors, institutional, behavioural and cultural, within them. The emphasis given to each of these factors and the balance between them will affect the way performance measurement is being used as part of performance management.

In the same vein, the research found that, as an example of the merger type of organisational culture, Midland Heart provides empirical evidence of a social housing organisation with a strong business or even a market orientation. MH's attempt to make performance measurement more results-oriented through an emphasis on the financial aspects of service delivery suggests that MH tends to be motivated by a growth agenda in which the size of its stock has priority over the quality of its services.

CVCHA, by contrast, is a community-based housing association with a high degree of tenant satisfaction where the notion of accountability is at the heart of the performance measurement system. Such a link between social accountability and performance measurement can be understood in terms of a 'social managing' role which places a significant emphasis on the role of performance measurement in the housing association sector.

Thus, the key to understanding performance measurement in the social housing sector, as exemplified by the study of the housing association sector, is political, managerial and social control. It is the need to develop, extend and maintain these controls that makes performance measurement important and it is difficult to understand performance

measurement without them.

Performance measurement has become increasingly centralised over the past thirty years. Central government has developed more sophisticated mechanisms for controlling housing associations and is able to guide them to meet government priorities. Of course, the true purpose of performance measurement – and the managerial reason why housing associations have used it – is to ensure that social housing providers perform well. Performance measurement has also become more concerned with improving social values than simply controlling expenditure, and this is exemplified by the inclusion of more qualitative assessment in the performance measurement process. This allows social expectations and aspirations as well as tenant satisfaction to be given due weight.

10.3 Contribution of the thesis

This thesis reviewed here 'understanding performance measurement in the English social housing sector' is of interest because the research questions address performance measurement in various ways. This thesis is, above all, about performance measurement in practice but it sets this within the framework of various theoretical approaches to the subject. One of the research questions has enabled an explanation of the factors influencing performance measurement, using the case study housing associations as examples. And the question of why housing associations measure their performance has been answered with reference both to the academic and policy literature, and to the practical experience of the two case study housing associations. The case studies have shown that the approach to performance measurement is not uniform across the housing association sector.

The thesis contributes to the literature by explaining the social housing sector in various ways and by its analysis of performance measurement from the perspective of a number of theories. Performance measurement is an established concept and technique in the social housing sector but the thesis has confirmed its importance as a management and regulatory tool.

Performance measurement in the social housing sector is markedly less well documented than resource management in the public sector generally. The use of performance measurement in the housing association sector has increased and seems likely to continue to do so in future. Therefore, it is important that the thesis explains what is happening and how it is being done.

The review of literature shows that few social researchers have discussed performance measurement in the social housing sector. This thesis has focused on the relationships between housing associations and their regulatory organisations rather than on the technical aspects of performance measurement. It has explained the objectives of performance measurement in terms of external regulation, internal management and social accountability and according to institutional, behavioural and performance culture factors. It is believed this complements significantly the existing literature. An important aim has been to present work of value to performance measurement researchers and practitioners by contributing to the understanding of performance measurement in the housing association sector in England.

10.4 Thesis limitations and further study

Understanding performance measurement is a continuous process and the study, therefore, does not end here.

This study has set out a research framework for examining how housing associations use a performance measurement system and its information. The framework has been used in case studies of two housing associations based in Birmingham. The methodology worked well and the case studies were attainable within the time and resource constraints of the research. Ideally, however, a larger number of associations would have been studied and the work would have been done on a generally larger scale. The case study housing associations were selected in terms of organisation size, location and characteristics, as explained in Chapter 6, but further studies could use a wider range of criteria for selection.. For instance, organisational structure could be important and it could be interesting to explore the effect of organisational factors on performance culture in housing associations. A good example would be to explore differences between stock-transfer housing associations and traditional housing associations. This opportunity remains for future research.

Other possibilities might be to compare examples between different countries in Europe, in particular between England and the Netherlands with their similarities and differences in social housing management. Other comparisons would be between local authorities and housing associations in performance management; or between housing associations operating in urban and rural areas.

Interviews have provided important material for this thesis. To understand complex phenomena, such as organisational culture and performance culture, interviews are a suitable research method for exploring housing associations. This study has drawn on a limited number of interviews in two case study organisations; in ideal circumstances, more interviews would have been conducted, for example, with a wider range of actors at a wider range of positions within the organisations, possibly grouping organisations and interviewees.

An ideal study would also include interviews with the regulatory organisations which were not included in this research through limitations of time. The main organisations would be the Tenant Services Authority (the successor body to the Housing Corporation) and the Audit Commission which are the main players in performance measurement. Additionally, it would be important to interview residents. Tenants' awareness and perspectives are necessary for improving understanding of possible trade-offs between managerial and social returns on social investment. Moreover, taking interviews with more front line staff and tenants as service users can be important in describing and understanding real situations.

A deeper understanding of performance measurement in housing associations would take more account of changes over time, which more detailed survey work might help to reveal. Another possibility would be to use quantitative research methods as a means of looking at performance culture through the behaviour of managers and chief executives. This methodology focuses on both business and personal outcomes. Performance culture assessment is complex, but quantitative methods can be used to determine the extent to which staff intend to use performance toolkits and their results, such as performance information, in internal housing management; and how often tenants, as service users, are involved in housing management and how satisfied they feel with housing services that are linked to social performance. This approach, however, is methodologically demanding for further studies.

The world of performance measurement in the social housing sector is always changing. This study (which began in late 2005 and was completed in early 2009) took place from 2007 onwards against a background of expected change affecting the Housing Corporation and its role in registering and monitoring the work of housing associations in England. These

changes were the subject of legislation which took effect in December 2008 with the transfer of Housing Corporation responsibilities to the Homes and Communities Agency (HCA) and the Tenants Services Authority (TSA), which has become the regulator for housing associations. However, a change in the location of functions and the names of responsible organisations does not invalidate the findings of this research or their relevance to the understanding of performance management in housing associations.

Appendix 1 Performance assessment framework for housing associations working with agents

	Lease	Housing management contract	Housing management and support contract	Support contract	Service level agreement
Risk assessment	An initial risk assessment of the managing association or the unregistered body	A risk assessment of the managing agent; A risk assessment of the services to be contracted	A risk assessment of the managing agent; A risk assessment of the services to be contracted	A risk assessment of the support provider; A risk assessment of the services to be contracted	Assessment of the business risk of working with the support provider*; No risk assessment required of services
Monitoring performance	No performance returns required (except for leases less than 21 years with unregistered managing agents)	Quarterly or annual return on housing management services; Annual management information on the agent	Quarterly or annual return on housing management services; Quarterly return on support services; Annual management information on the agent	Quarterly return on support services; Annual management information on the support provider	No performance return required
Performance review	No performance review required (except for leases less than 21 years with unregistered managing agents); Arrangements should be reviewed according to the terms of the lease	Normally once every three years for low risk services; More frequently for higher risk services (e.g. once a year)	Normally once every three years for low risk services; More frequently for higher risk services (e.g. once a year)	Normally once every three years for low risk services; More frequently for higher risk services (e.g. once a year)	No performance review required; The agreement should specify what information should be shared

Source: Housing Corporation, 2004: 11

Appendix 2 Housing Corporation Regulatory Code

Viable

Regulatory Code	Regulatory Guidance
1.2 Housing associations must operate a framework that effectively identifies and manages risks:	1.2 a. The association's risk management framework highlights key risks and how they are to be managed.
1.2.1 identifying all major risk areas that might prevent them achieving their objectives;	b. The governing body regularly reviews activities and policies and all new business decisions and there is a clear case for the proposed or existing direction of the association.
1.2.2 with the necessary arrangements to manage risks and mitigate their effects	c. Approved terms of reference for the governing body and other committees and delegated authorities for staff are in place.
	d. There are internal control systems. Their effectiveness is regularly reviewed by the governing body and reported in the annual report.

Properly governed

Regulatory Code	Regulatory Guidance
2.3 Housing associations must maintain the highest standards of probity in all their dealings:	2.3 a. A code of conduct for the governing body and staff, together with a payments and benefits policy, is in place. Sound procurement practices are in place and contractual arrangements or partnerships with other bodies are clearly defined and documented.
2.3.1 acting to maintain the good reputation of the sector, and not bringing it into disrepute;	b. The association maintains a dialogue about its strategic objectives with its key stakeholders.
2.3.2 fostering positive relationships with stakeholders;	
2.3.3 conducting their business so that they are accessible, accountable and transparent to residents and other stakeholders;	
2.3.4 only entering into relationships with other organisations when the rights and obligations are clear to all.	

Properly managed

Regulatory Code	Regulatory Guidance
3.2 Housing associations must have management arrangements, resources, skills and systems which are appropriate to their circumstances, scale and scope of operation and ensure that their activities :	3.2 a. The governing body receives regular reports on all areas of the association's performance. The association benchmarks its performance against other associations and organisations
3.2.1 are adequately monitored	b. All lettings and sales are recorded in the Continuous Recording of lettings system (CORE)
3.2.2 are undertaken efficiently and effectively	c. Services can be demonstrated to be relevant and accessible to customers and potential customers
3.2.3 are backed up by proper systems of assurance for internal control	d. There are clear contractual arrangements and reporting and review mechanisms for the use of partners and agents

Source: Housing Corporation, 2004.

Appendix 3 Key Housing Corporation objectives linked to risk

Risk to objective	Characteristics
Viability	The risk to the confidence of the taxpayer, lenders, government (central and local), and to tenants arising from the financial failure of a housing association, and the potential loss of resources to the social housing sector, including the loss of social housing stock and public investment provided to fund it.
Governance	The risk to the confidence of the taxpayer, lenders, government (central and local), and to tenants arising from the failure of a housing association to establish and maintain effective arrangements for the governance of their organisation and its conduct of business reflected in: • compliance with statutory and regulatory requirements; • competence and effectiveness of governing body; • arrangements for risk management and internal controls; • maintaining high standards of probity; • meeting the objectives of housing associations as described by their permitted purposes, particularly in relation to providing social housing to meet particular needs, and to be responsive particularly to tenants, but also to the wider range of stakeholders with whom associations co-operate, and to whom they provide services or assistance
Management	The risk to the confidence of the taxpayer, lenders, government (central and local), and to tenants arising from the failure of a housing association to put in place arrangements to deliver high-quality homes and services (at affordable rent levels), making efficient and effective use of resources, and co-operating effectively with local authorities and other stakeholders to meet social housing needs.
Development and public investment	The risk to the taxpayer and government (central and local) of the failure of a housing association to effectively deliver its commitments to provide new social housing supply (or other capital investment) under agreements with the Housing Corporation or other funders.

Source: Housing Corporation, 2007

Appendix 4 Housing Corporation Risk Model Impact Metrics

Impact factors

Factor	Detail	Metric
Stock	Stock figures are calculated using the RSR and include stock owned plus stock managed.	The greater the number of units, the higher the impact. For associations with less than 1,000 units, a RASA filter is applied.
Supporting People (SP) stock	Supporting People stock figures are calculated using the RSR and include supported housing and older persons stock owned plus stock managed.	The greater the number of units, the higher the impact.
Lead partner status	Default weighting of lead partner to medium.	Adjusts the impact score to medium, if the association is a lead partner.
Development (sub-partner)	Total unit completions as defined in the National Affordable Housing Programme (NAHP) and traditionally funded unit completions.	The greater the number of units, the higher the impact.
Dispersion	An analysis of stock percentages of housing associations by local authority; showing stock concentration (impact of failure).	The greater the percentage of stock a housing association has within the local authorities, where it owns stock, the higher the impact.
Revenue from other services	Trip mechanism to flag specialist service providers, by scoring revenue per unit of stock.	Housing associations with a higher revenue per unit stock will be flagged with a higher impact score.
Non-funded development	Units of social housing built or acquired without HC investment funding (as defined by RSR).	The greater the number of units, the higher the impact.
Decent Homes Standard (DHS) impact score	Impact score on stock failing to meet Decent Homes Standard (DHS).	Impact score of stock failing to meet DHS (units per housing association) The higher the percentage of stock failing, the higher the impact score.

Probability (business characteristic) factors		
Factor	**Detail**	**Metric**
Financial data	• Weighted AVR Grade, and • the incorporation of weighted key financial ratios	AVR Grade: Lower grade (poor score) will result in higher probability scores. Financial ratios used: • Gearing (net adjusted leverage) • EBITDA (Earnings before interest, tax, depreciation and amortization) Weighted quartiles are used for assessing financial performance.
PIs	Re-let times and voids rates, as defined in the Performance Indicators.	Weighted quartiles for performance indicators scores. Poorer performance will result in higher probabilities.
Development	Development factor based on unit delivery (as used in impact score), offset against the HCA development traffic light.	Higher development unit scores will result in higher probability, unless development traffic light is green.
Specialist providers	Revenue from supporting people services as a percentage of turnover, as defined in the FV5.	Higher percentages of revenue will result in higher probability score.
Dispersion	An analysis of stock percentages of housing associations by local authority; showing stock dispersion (efficiency) – this is represented as a risk factor.	Higher levels of dispersion will result in higher the probability score.
Measure of diverse activity	Expenditure on other services, expressed as a percentage of turnover, as defined in the FV5.	Higher levels of expenditure will result in higher probability scores.
LSVT weighting	Weighted scores for new stock transfer associations, calculated on date of registration.	Newer stock transfers will have a high probability score for the first two years, which will then decrease over five years.
DHS probability factor	A probability factor applied to the Decent Homes Standard impact score.	Higher failures in DHS will result in a higher probability score..
Control factors		
Inspection scores	Inspection results and performance are weighted on the age of inspection.	Poor results and performance will result in higher control scores, but the weighting will not apply after 18 months from the date of inspection.
QHS PIs	An adjusted control score for associations with QHS accreditation.	QHS accreditation will default the control scores to low.
HCA governance and management	Control weightings are based on HCA grades for governance and management.	Poor performance grades will result in higher control scores.

Source: Housing Corporation, 2007

1. **TOPIC GUIDE FOR INTERVIEWS WITH BOARD MEMBERS**
2. **TOPIC GUIDE FOR INTERVIEWS WITH CHIEF EXECUTIVES**
3. **TOPIC GUIDE FOR INTERVIEWS WITH OPERATIONAL MANAGERS**

Introduction:

My name is Young-Jin Ham. I am a research (PhD) student at the University of Birmingham. I am studying performance measurement in the social housing sector. As part of my study, I'm exploring the views and experiences of professionals and practitioners at different position levels in housing associations, including senior staff, managers and board members. This interview should last about 45 minutes.

Note: all information you give me will be used for research purposes only and treated in confidence.

Primary objectives

To examine how housing association executives, managers and board members have experienced and responded to performance measurement, focusing on the impact of performance measurement and the use of performance measurement, for example:

- What are the reasons for performance measurement?
- What effects has performance measurement had on your housing association?

1. TOPIC GUIDE FOR INTERVIEWS WITH BOARD MEMBERS

(*Face to face interview – 45 minutes*)

Name of interviewee: _____

Job title of interviewee: _____

Date & time of interview: _____

Introduction:

My name is Young-Jin Ham. I am a research (PhD) student at the University of Birmingham. I am studying performance measurement in the social housing sector. As part of my study, I'm exploring the views and experiences of professionals and practitioners at different position levels in housing associations, including senior staff, managers and board members. This interview should last about 45 minutes.

Note: all information you give me will be used for research purposes only and treated in confidence.

Interview process

1. Background
   - General experience
   - Experience of performance measurement
2. Purpose of performance measurement
   - Key reason(s) for performance measurement
   - Current situation
   - Negative and positive effects
3. Use of performance measurement information
   - Current use of performance measurement
   - Support to Board members colleagues/staff in using performance information
   - Increased accountability – but to whom?
4. Additional information

Starting with some background information

1. Could you briefly tell me about your job as a Board Member? *(What are your responsibilities, how long have you worked in this role?)*

2. In what way are you involved with performance measurement? *(to what extent are you involved)*

Section 2 – Purposes of performance measurement

I would like to ask you some questions about your experiences of performance measurement in your Board member role. The reason why housing associations measure their performance... control and accountability

3. What do you think is the role of performance measurement in housing association management?

4. What is your view on the need for performance measurement in social housing management? *(Should there be any changes?)*

5. Do you feel that the performance indicators used by the Housing Corporation and the Audit Commission effectively measure all aspects of the work of your housing association?

Section 3 – Use of performance measurement information

6. In what ways does the Board of Management make use of performance data?

7. How might using performance information strengthen the decision making structure of your association?

Section 4 - Additional information

8. Do you have any other comments/ideas regarding performance measurement?

Thank you very much for your time

2. TOPIC GUIDE FOR INTERVIEWS WITH CHIEF EXECUTIVES

(*Face to face interview – 45 minutes*)

Name of interviewee: _____

Job title of interviewee: _____

Date & time of interview: _____

Introduction:

My name is Young-Jin Ham. I am a research (PhD) student at the University of Birmingham. I am studying performance measurement in the social housing sector. As part of my study, I'm exploring the views and experiences of professionals and practitioners at different position levels in housing associations, including senior staff, managers and board members. This interview should last about 45 minutes.

Note: all information you give me will be used for research purposes only and treated in confidence.

Interview process

1. Background
   - General experience
   - Experience of performance measurement
2. Purpose of performance measurement
   - Key reason(s) for performance measurement
   - Current situation
   - Negative and positive effects
3. Use of performance measurement information
   - Current use of performance measurement
   - Support to Board members colleagues/staff in using performance information
   - Increased accountability – but to whom?
4. Additional information

Starting with some background information

1. Could you briefly tell me about your current job? *(What are your responsibilities, how long have you worked in this role?)*

2. In what way are you involved with performance measurement? *(to what extent are you involved)*

Section 2 – Purposes of performance measurement

I would like to ask you some questions about your experiences of performance measurement in your day to day work... The reason why housing associations measure their performance... control and accountability

3. What do you think are the key reasons for performance measurement in the social housing sector?

4. What are future requirements for performance measurement likely to be? *(Similar to current needs, any variations across England?)*

Section 3 – Use of   performance measurement information

5. In general terms, what are the benefits and problems that can result from performance measurement?

6. Do you feel that the performance indicators used by the Housing Corporation and the Audit Commission effectively measure all aspects of the work of your housing association?

7. What is the main motivation for using performance information?

8. Are there any disadvantages in emphasising quantitative data?

9. What do you feel are the costs to your organisation of operating a performance management system? And do you feel these costs are justified by results?

10. How do you interact with regulating organisations and housing association staff involved in measuring the performance of your housing association? *(Any examples of integrated work to make the system better?)*

Section 4 - Additional information

11. Are there any other issues about performance measurement that I have not covered in the interview that you would like to add or highlight?

12. Do you have any other comments/ideas regarding performance measurement?

Thank you very much for your time

3. TOPIC GUIDE FOR INTERVIEWS WITH OPERATIONAL MANAGERS

(*Face to face interview – 45 minutes*)

Name of interviewee: _____

Job title of interviewee: _____

Date & time of interview: _____

Introduction:

My name is Young-Jin Ham. I am a research (PhD) student at the University of Birmingham. I am studying performance measurement in the social housing sector. As part of my study, I'm exploring the views and experiences of professionals and practitioners at different position levels in housing associations, including senior staff, managers and board members. This interview should last about 45 minutes.

Note: all information you give me will be used for research purposes only and treated in confidence.

Interview process

1. Background
   - General experience
   - Experience of performance measurement
2. Purpose of performance measurement
   - Key reason(s) for performance measurement
   - Current situation
   - Negative and positive effects
3. Use of performance measurement information
   - Current use of performance measurement
   - Support to Board members colleagues/staff in using performance information
   - Increased accountability – but to whom?
4. Additional information

Section 1 - Background information

Starting with some background information

1. Could you briefly tell me about your current job? *(What are your responsibilities, how long have you worked in this role?)*

2. In what way are you involved with performance measurement? *(to what extent are you involved)*

Section 2 – Purposes of performance measurement

I would like to ask you some questions about your experiences of performance measurement in your day to day work... The reason why housing associations measure their performance... control and accountability

3. What are future requirements for performance measurement likely to be? *(Similar to current needs, any variations across England?)*

4. What is your view on using performance information for managing your housing association?

Section 3 – Use of   performance measurement information

5. How well are your professional needs met? (education, training and resources)

6. What do you think are the positive and negative effects of performance measurement in your housing association?

7. In what ways could your role as a performance manager be further developed in the future? (How should performance manager's roles develop/expand/change?)

Section 4 - Additional information

8. Thanks for everything you have mentioned so far, just to conclude; could you summarise what are the key issues for you in performance measurement?

9. Do you have any relevant documentation that you could give me with regard to your current activities/future plans?

10. Do you have any other comments/ideas regarding performance measurement?

Thank you very much for your time

Appendix 6 Performance of CVCHA compared with national average in England

Performance indicator number	Performance Indicator	The Castle Vale Community Housing Association Ltd (L4118)							National Mean Average							National Median Quartile							National Top Quartile							National Bottom Quartile						
	Year / PI	01	02	03	04	05	06	07	01	02	03	04	05	06	07	01	02	03	04	05	06	07	01	02	03	04	05	06	07	01	02	03	04	05	06	07
CMCX17	Vacant and not available stock (GN) (%)	0.0	0.0	0.0	0.1	0.0	0.2	0.0	1.5	1.4	1.5	1.4	1.4	1.2	1.2	0.6	0.5	0.6	0.5	-	0.4	-	-	-	0.1	0.1	-	-	-	-	-	1.3	1.4	-	-	-
CMPI01	Failing decent homes standard (%)	-	0.0	0.0	0.5	0.8	0.7	0.0	-	21.6	22.9	19.7	18.7	15.5	13.0	-	5.0	9.9	9.9	8.1	7.7	7.3	-	-	1.0	1.2	0.9	1.1	2.2	-	-	26.7	23.9	19.6	15.9	14.8
CMPI02	Vacant Dwellings (%)	-	-	-	-	-	-	0.1	-	-	-	-	-	-	2.6	-	-	-	-	-	-	1.9	-	-	-	-	-	-	1.1	-	-	-	-	-	-	3.1
CMPI03	Re-let time (all managed stock) (days)	-	-	-	-	-	-	16.3	-	-	-	-	-	-	40.4	-	-	-	-	-	-	37.0	-	-	-	-	-	-	28.1	-	-	-	-	-	-	50.3
GNCX04	Average 2-bed GN weekly gross rent (£)	-	62.1	63.4	64.6	62.0	64.2	66.4	57.1	58.2	59.1	60.9	62.9	65.7	68.1	-	-	-	-	-	65.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GNCX29	GN Relet time (owned stock) (days)	12	10	13	8	5	3	16.4	39	36	38	41	43	40	40.1	33	4	4	32	37	35	-	-	-	3	22	26	24	-	-	-	7	48	53	48	-
GNCX32	Average GN weekly gross rent (£)	60.8	63.2	64.6	65.9	64.5	66.6	68.9	58.2	59.3	60.0	61.2	63.4	66.2	68.7	59.2	61.4	61.7	62.4	64.3	66.7	-	-	-	-	55.6	56.9	59.5	-	-	-	-	70.8	74.9	77.6	-
GNPI14	Average GN SAP rating (%)	88	88	89.0	90.0	90	90	90	58	60	61.1	64.5	67	69	69	58	60	61.0	64.0	67	68	68	-	-	68.6	71.0	72	74	72	-	-	55.5	58.0	61	64	64
GNPI20	Routine repairs completed in target (%)	95	96	96.5	97.0	94.5	98.9	95.6	93	92	93.1	92.2	92.0	93.7	94.0	95	94	94.2	94.3	94.0	95.3	95.7	-	-	97.0	97.0	97.0	97.5	97.5	-	-	90.3	90.9	90.7	92.0	92.0

Performance indicator number	Performance Indicator	The Castle Vale Community Housing Association Ltd (L4118)							National Mean Average							National Median Quartile							National Top Quartile							National Bottom Quartile						
	Year / PI	01	02	03	04	05	06	07	01	02	03	04	05	06	07	01	02	03	04	05	06	07	01	02	03	04	05	06	07	01	02	03	04	05	06	07
GNPI22	Tenant satisfaction overall (%)	-	81	82	75	85	85	85	80	80	79	78	79	79	79	80	80	80	80	80	81	80	-	-	86	86	85	86	85	-	-	74	73	73	75	75
GNPI23	Tenant satisfaction with participation (%)	-	67	64	80	93	93	65	62	61	61	62	62	62	60	62	60	60	61	61	62	59	-	-	69	70	70	69	67	-	-	52	54	53	54	53
GNPI37	Tenants satisfied with repairs and maintenance (%)	-	-	-	-	-	-	79	-	-	-	-	-	-	76	-	-	-	-	-	-	77	-	-	-	-	-	-	82	-	-	-	-	-	-	70
SHCX12	SH Relet time (owned stock) (days)	-	-	-	-	-	-	-	-	-	-	-	-	29	20.7	-	-	-	-	-	14	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Housing Corporation Performance Indicators and CVCHA records

Appendix 7 Performance of Midland Heart compared with national average in England

Performance Indicator	Midland Heart (L4466)		National Mean Average							National Median Quartile							National Top Quartile							National Bottom Quartile						
Year / PI	01-06	07	01	02	03	04	05	06	07	01	02	03	04	05	06	07	01	02	03	04	05	06	07	01	02	03	04	05	06	07
Total general needs dwellings owned		21703	2931	2493	3098	3111	2975	3005	4167	-	-	-	-	-	2088	-	-	-	-	-	-	3829	-	-	-	-	-	-	564	-
Total general needs dwellings managed		20944	-	-	-	-	-	-	4347	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Current tenant rent arrears at year end for GN (%)		9.2	-	-	-	-	5.4	5.1	5.4	-	-	-	-	5.2	4.9	4.8	-	-	-	-	3.5	3.5	3.3	-	-	-	-	7.1	6.8	6.5
Current tenant SH/HOP rent arrears at year end (%)		5.5	-	-	-	-	-	-	4.0	-	-	-	-	-	-	2.8	-	-	-	-	-	-	1.5	-	-	-	-	-	-	5.1
Vacant and available stock (GN) (%)		1.8	1.5	1.3	1.3	1.2	1.0	0.8	0.8	1.0	0.8	0.8	0.8	-	0.6	-	-	-	0.4	0.4	-	-	-	-	-	1.5	1.4	-	-	-
Vacant and not available stock (GN) (%)		2.2	1.5	1.4	1.5	1.4	1.4	1.2	1.2	0.6	0.5	0.6	0.5	-	0.4	-	-	-	0.1	0.1	-	-	-	-	-	1.3	1.4	-	-	-
Vacant and not available stock (SH and/or HOP) (%)		1.3	-	-	-	-	-	-	2.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Failing decent homes standard (%)		14.4	-	21.6	22.9	19.7	18.7	15.5	13.0	-	5.0	9.9	9.9	8.1	7.7	7.3	-	-	1.0	1.2	0.9	1.1	2.2	-	-	26.7	23.9	19.6	15.9	14.8
Vacant Dwellings (%)		4.3	-	-	-	-	-	-	2.6	-	-	-	-	-	-	1.9	-	-	-	-	-	-	1.1	-	-	-	-	-	-	3.1
Current tenant arrears at FYE (%)		8.4	-	-	-	-	-	-	5.2	-	-	-	-	-	-	4.5	-	-	-	-	-	-	3.1	-	-	-	-	-	-	6.3
Average 2-bed GN weekly gross rent (£)		68.89	57	58	59	60	62	65	68	-	-	-	-	-	65	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Routine repairs target days (days)		28	-	-	-	-	-	-	-	-	-	-	-	-	28	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Performance Indicator	Midland Heart (L4466)		National Mean Average							National Median Quartile							National Top Quartile							National Bottom Quartile						
Year / PI	01-06	07	01	02	03	04	05	06	07	01	02	03	04	05	06	07	01	02	03	04	05	06	07	01	02	03	04	05	06	07
Average GN weekly gross rent (£)		70.10	58	59	60	61	63	66	68	59	61	61	62	64	66	-	-	-	-	55	57	60	-	-	-	-	71	75	77	-
Average GN SAP rating		62	58	60	61	64	67	69	69	58	60	61	64	67	68	68	-	-	68	71	72	74	72	-	-	55	58	61	64	64
Routine repairs completed in target (%)		95	93	92	93	92	92	93	94	95	94	94	94	94	95	95	-	-	97	97	97	97	97	-	-	90	90	90	92	92
Tenant satisfaction overall (%)		71	80	80	79	78	79	79	79	80	80	80	80	80	81	80	-	-	86	86	85	86	85	-	-	74	73	73	75	75
Tenant satisfaction with participation (%)		44	62	61	61	62	62	62	60	62	60	60	61	61	62	59	-	-	69	70	70	69	67	-	-	52	54	53	54	53
Vacant GN Dwellings		4.0	-	-	-	-	-	-	2.1	-	-	-	-	-	-	1.3	-	-	-	-	-	-	0.7	-	-	-	-	-	-	2.2
Tenants satisfied with repairs and maintenance		62	-	-	-	-	-	-	76	-	-	-	-	-	-	77	-	-	-	-	-	-	82	-	-	-	-	-	-	70
Shared ownership (SO) owned	1937		-	618	593	649	640	614	616	-	-	-	-	-	316	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total SO dwellings managed	1931		-	567	551	616	576	550	638	-	-	-	-	-	264	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SO rent arrears (%)		13.3	-	5.4	6.5	4.9	5.1	4.6	5.7	-	-	-	3.8	3.9	4.0	-	-	-	-	2.3	2.4	2.3	-	-	-	-	6.0	6.1	5.6	-
Shared owner satisfaction overall (%)		61	-	-	-	66	63	62	63	-	-	-	68	64	64	64	-	-	-	75	73	71	72	-	-	-	56	54	54	54

Source: Housing Corporation Indicators and Midland Heart records from the Corporation's web

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