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**Homes and Communities Agency**

**Consultation on the Value for Money Standard**

About us

The Northern Housing Consortium (NHC) is a membership organisation based in the North of England that works with local authorities and housing associations to advance the cause of housing. Our membership covers around 90% of all housing providers in the North. The NHC brings its members together to share ideas, and to promote their interests and to ensure their voice is heard at a regional and national government level.

We welcome the opportunity to respond to this consultation.

Summary of discussions with NHC members around the VFM Consultation document

In response to the consultation, and in order to get the views of its members, NHC arranged and facilitated three meetings around its sub-regions of North East, North West and Yorkshire and the Humber. The key points in discussions held at those meetings have informed this NHC formal response to the consultation.

Format of the consultation meetings

We have structured our response as follows:

* General commentary around the Standard, its key suggestions and the likely impact on the way members needed to operate as a consequence.
* The consultation posed 10 questions to provide structure to the responses. After the general discussion each of the 10 questions was considered.

General commentary and key points

***Move away from an annually submitted VFM self-assessment to an assessment judged on performance against a series of metrics***

The current requirements are that organisations submit a VFM self-assessment to HCA, describing their approach to VFM and providing examples and evidence of VFM in practice within their organisation. The consultation proposes that the requirement on housing providers to produce the VFM self-assessment is removed and replaced with a series of performance metrics.

The removal of the mandatory requirement was well received by members, though the majority of attendees recognise the value of carrying out a self-assessment for internal use. It is felt that the current requirement lends itself to the self-assessment document being too comprehensive - to ensure that it contains everything that HCA may wish to see. It is typically at least 30 pages long and is a wordy, narrative report. Members welcomed the opportunity to tailor the VFM self-assessment for internal consumption as a reference guide to themselves rather than a mandatory requirement. This should make it more succinct and relevant.

The metrics contained within the consultation are a list of 7 performance metrics:

*Metric 1 – Reinvestment %*

This metric looks at the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held.

*Metric 2 – New supply delivered %*

The New supply metric sets out the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and non-social housing units managed at period end.

*Metric 3 – Gearing %*

This metric assesses how much of the adjusted assets are made up of debt and the degree of dependence on debt finance. It is often a key indicator of a registered provider’s appetite for growth.

*Metric 4 – Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover %*

The EBITDA MRI interest cover measure is a key indicator for liquidity and investment capacity. It seeks to measure the level of surplus that a registered provider generates against interest payments.

*Metric 5 – Headline social housing cost per unit*

The unit cost metric assesses the headline social housing cost per unit as defined by the regulator.

*Metric 6 – Operating Margin %*

The Operating Margin demonstrates the profitability of operating assets before exceptional expenses are taken into account.

*Metric 7 – Return on capital employed (ROCE)*

This metric compares operating surplus to total assets less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources.

As can be seen, the metrics are all financial metrics. Members felt that these should be relatively easy to collect, as they typically form part of the annual financial report anyway. There is a requirement to compare against peers and there was some discussion around the practicalities of carrying out true comparison in a timely manner. As final accounts aren’t published until at least 3 months after the end of the financial year, any comparison to follow would inevitably be based on historical information.

There was also discussion around the concentration of VFM within the finance function. Housing providers are encouraged to ensure that VFM is integrated throughout the organisation and it is felt that by concentrating the formal reporting against financial metrics, work will be required to ensure that all parts of the organisation remain involved.

***Clear link between the strategic objectives of the business and the delivery of VFM in achieving them, with the Board to be central in accountability around VFM***

The proposed standard makes the clear link between strategic objectives and VFM and places the onus on the Board to be clearly accountable. It is expected that VFM is built in to all plans in place to achieve strategic objectives and that this can be demonstrated with evidence to the regulator. Providers will be expected to demonstrate “*a strong focus on how value for money is to be achieved in meeting the organisation’s objectives”.*

The overall aim is to improve Board accountability around VFM. To quote the consultation document:

*“The proposals set out …would strengthen requirements for board accountability and enhance transparency through a focused, outcome-based approach to measuring and reporting both value for money gains and areas for improvement”*

This links to HCA judgements on Governance and Viability, which will be affected by the organisation’s ability to evidence VFM in meeting objectives.

Members felt that board accountability on VFM had improved in recent years and that this was an extension of on-going work. Many report VFM considerations within existing board reporting with VFM champions and Board members with specific responsibilities on VFM in place.

***Stated links between VFM and delivering more homes***

From the first sentence in the foreword, it was recognised that the HCA is keen to point to the link between VFM and enabling providers to deliver more homes, improvements to the existing housing stock and better services to tenants.

It is clear that this remains a key driver for Government and VFM now exactly aligned to that overarching aim. Essentially, provide better VFM to allow organisations the capacity to build more homes.

***VFM and In-Depth Assessment (IDA)***

NHC members would welcome further information on the links between the revised standard and how it will feature in IDA carried out by the regulator. We understand the expectation on internal metrics being used in additional to the financial metrics outlined, but members will be interested in any further guidance or learning from IDAs.

**Consultation questions**

The consultation seeks a response to 10 specific questions. The general consensus around the questions amongst members was that they were designed to provide a positive response, with many of statements in the questions difficult to disagree with. The specific questions and a summary of the discussions are as follows:

1. *Do you agree with the objectives for the proposed Value for Money Standard?*

The discussions here were more about the pre-supposition that VFM is not already a key consideration. Members were keen to stress that work had been on-going, both before and after the cut in rents. The response is, therefore, that we agree with the objectives, but want to draw attention to previous and on-going work.

1. *Do you agree that the focus on boards ensuring that delivering value for money is an integral part of running their business would support a more strategic outcome -focused approach?*

There is an enhancement of the focus on Boards to deliver VFM and the HCA has delivered an unambiguous message. However, where a Group structure operates, further clarification is required around the extent to which unregistered subsidiaries are to be included.

1. *Do you agree that registered providers should seek to maximise the financial return from their resources and assets in so far as that is consistent with the achievement of the organisation’s wider organisational purposes?*

Again, the statement is difficult to disagree with. Members did raise the question of the social value that their organisations provide, and also where the wider organisational purpose is not necessarily to maximise financial return.

1. *Do you agree that boards should consider the full range of operational and strategic issues in delivering value for money?*

The phrase “full range of operational….” was a cause for debate. Many members felt that the Board should be aware of key operational issues, with some exception reporting included against pressure points, but the terminology used in the question suggests full and detailed reporting against operations. This seems to contradict the stated aim of linking strategic objectives and VFM.

1. *Do you think the Code helps registered providers understand how compliance with the requirement to ‘undertake a rigorous appraisal of potential options for improving performance’ could be achieved?*

The Code provides some indicators about compliance with the appraisal of options. However, members felt that the ‘rigorous appraisal’ suggested would be dependent on the issue under consideration. There was also some discussion as to whether the underlying aim was to encourage more mergers within the sector.

1. *Do you agree with the move away from wide-ranging narrative self-assessments in the current Standard towards a specific metrics – and targets-based approach?*

Members agreed with the fact that there is an administrative burden attached to the self-assessment document. However, many felt that the document provides the opportunity to give more context and explanation than a simple metrics based approach. Most members will produce an internal self-assessment anyway, though will not necessarily include in the report to the accounts as metrics will be included.

1. *Do you agree that a targets-based approach in measuring performance will help to deliver value for money?*

A targets-based approach in itself will not help to deliver value for money. It is felt that a targets-based approach is a useful tool for comparison, but it would depend on measures to be used and who measuring against. The consultation is not clear on benchmarking, talking about comparison with peers, but also highlighting year on year comparison internally.

1. *Do you agree that the requirement to report on value for money in the accounts would increase board focus on value for money as well as drive transparency, consistency and comparability for stakeholders?*

There was a view from some members that VFM gets lost in the accounts, with increasing requirements from financial and auditory point of view leading to a growing financial report to the accounts - “can’t see the wood for the trees”.

It should increase Board focus; for other stakeholders, it depends on the stakeholders. For funders and institutions, the requirement should help with transparency, consistency and stakeholders.

It was not felt that this would particularly provide information for tenants. VFM for tenants is reported differently (essentially how is the rent spent) and there is not an obvious link to tenants and indeed consumer standards within the consultation.

1. *Do you think the proposed Code achieves its aim of amplifying the requirements in the Standard, helping registered providers understand how the requirements in the Standard could be met?*

The Code is a useful addition. Whilst not overly prescriptive, it does give housing providers more depth and understanding on what requirements are. It is hoped that this is the first step and could evolve over time.

1. *Do you have any comments on our business engagement assessment including in relation to equality and diversity?*

No real comments from the group. It reads like a mandatory question asked in all Government consultations.

**Next Steps**

We look forward to the publication of the final standard following the consultation. NHC will reconvene groups of members following the issue of the standard to discuss implementation of the standard, the timescales involved and any other regulatory issues. We would welcome any contribution from HCA at these sessions and will liaise with HCA colleagues to consider the best way to do this.

For enquiries about this submission, please contact:

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| Nigel JohnsonHead of Business ImprovementNorthern Housing ConsortiumTel: 07843 356445Email: nigel.johnston@northern-consortium.org.uk | Karen BrownSenior Policy AdvisorNorthern Housing ConsortiumTel: 0191 566 1021Email: Karen.brown@northern-consortium.org.uk |