



Department for
Communities and
Local Government

Tailored Review of the Homes and Communities Agency

November 2016



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Foreword

The challenge of building many more homes over this Parliament is a key objective for this Government and one of my personal priorities as Secretary of State. One of the most important tools we have to increase our housing supply as dramatically as we would like is the Homes and Communities Agency – our national housing delivery body. Since its formation in 2008 the Agency has delivered on its targets and objectives. But we now need greater ambition, rising to the housing challenge with renewed leadership and focus.

The Agency must have a clear principal objective of delivering housing. It will remain a delivery agent for essential government programmes but will take a broad approach, using its expertise, land and investment to facilitate and maximise housebuilding. This requires a transformation of the organisation’s capability to become more active and innovative. It needs to become more active in the land market, to enter and shape new markets through Accelerated Construction, and to drive delivery of new products such as Shared Ownership and Starter Homes.

This Review signals significant change and a corresponding leadership challenge for the new Chair and his team. They will need to create a leaner, more commercially astute, and more professional organisation that operates with greater agility and demonstrates best value in everything it does. The Agency must take a leadership role in the housing sector, supporting SMEs, new approaches and diversifying the market.

So that it can focus properly on its task, the Agency’s current regulatory function will be vested in a separate regulator.

This Review sets out how Ministers and my Department will support the Agency’s leadership team as they embark on one of the most important delivery tasks for this Parliament. I look forward to working with them as we work to achieve these ambitions together.

The Rt Hon Sajid Javid
Secretary of State for Communities and Local Government

Introduction

1. Over this Parliament, the Government has set out an ambition to build many more homes and to create a housing market that works for everyone. These aims are reflected in the priorities of the Department of Communities and Local Government <https://www.gov.uk/government/publications/dclg-single-departmental-plan-2015-to-2020> and in the 2015 Spending Review which saw over £20 billion allocated for housing up to March 2021.
2. The majority of the homes will be delivered by private developers without direct Government intervention or funding; however Government has a key role to play in driving up housing supply. We have the most ambitious plan to build affordable homes since the 1970s and we are focused on accelerating housing supply by speeding up the planning process, bringing forward public sector land and helping small builders.
3. The Homes and Communities Agency will play a crucial part in the delivery of these housing objectives as the Government's main national delivery body. The Agency has a strong track record of delivery, successfully delivering all of its annual output targets since its creation in 2008 and making a significant contribution to housing objectives in the last Parliament.
4. On February 10th 2016 the Minister of State for Housing and Planning, Brandon Lewis MP, announced a Review of the Homes and Communities Agency in line with Cabinet Office requirements around the review of public bodies. The Review is part of a wider programme of government activity to scrutinise the effectiveness and efficiency of public bodies.
5. The Review is forward-looking, focused on the challenges faced by the Agency in the current Parliament; to rise to the delivery challenge and make an even stronger contribution to housing objectives whilst improving efficiency to make administration savings of 30% by March 2020.
6. Successful implementation of this Review will require strong and sustained leadership. This is particularly important given the current absence of a permanent Chief Executive. This Review provides a framework for the new

leadership team, which is being actively recruited, as they will fundamentally reshape the Agency for the future.

Background and approach

The Homes and Communities Agency

The Homes and Communities Agency (HCA) is the national housing, land and regeneration agency (outside London) and the regulator of social housing providers in England. The Agency is an executive non-departmental public body (NDPB) sponsored by the Department of Communities and Local Government (DCLG). More about the work of the Agency can be found on their website

<https://www.gov.uk/government/organisations/homes-and-communities-agency/about> and in their Annual Report and Accounts

<https://www.gov.uk/government/publications/homes-and-communities-agency-annual-report-and-financial-statements-2014-to-2015>

The HCA is structured to deliver its objectives through the following functions:

- *HCA-Investments [HCA-I]*: makes and manages recoverable investment & guarantee programmes that facilitate housing delivery, predominantly working with private sector partners.
- *Land (and development)*: manages the assembly and disposal of Public Sector Land for housing development. Its Advisory Team for Large Applications (ATLAS) offers expert planning advice and brokers deals between local authorities and developers to unlock local housing delivery.
- *Programmes*: leads delivery of programmes such as the Help to Buy: Equity Loan scheme and the Affordable Homes Programme.
- *Local operating areas*: the local arms of the Agency work closely with the Investment, Land, and Programmes functions and are, for many partners, the main point of contact with the organisation.
- *Regulator*: regulates registered social housing providers within a statutory framework.

These functions are supported by a Finance and Corporate Services business unit.

7. The HCA Review was carried out in line with Cabinet Office guidance <https://www.gov.uk/government/publications/tailored-reviews-of-public-bodies-guidance> and conducted on behalf of the Secretary of State for Communities and Local Government by a small team drawn from the staff of his Department and led by a Senior Civil Servant. As a government Priority Review, the outcomes have been agreed by the Cabinet Office.

8. The Review:

i) Examined the continuing need for an executive non-departmental public body, covering:

- how each of the agency's functions contributes to Government objectives;
- whether each function and the body is still required; and
- the best future delivery options.

ii) Examined the capacity of the Homes and Communities Agency to deliver more efficiently and effectively.

iii) Examined whether corporate governance and management arrangements are sufficiently robust and transparent and that the agency is operating in line with recognised principles of good corporate governance.

Following detailed lines of enquiry (Annex B), the team collected a comprehensive and robust evidence base from which to draw its conclusions, comprising:

- around 140 interviews with a wide range of external stakeholders, HCA and DCLG staff (see Annex C);
- over 120 substantive responses to an online call for evidence seeking the views of the public and sector bodies (see Annex D); and
- documentation provided by both DCLG and the HCA.

9. The Review team would like to thank all those who took time to contribute to the Review. Throughout the Review process the team worked closely with the HCA and was grateful for the Agency's full and active engagement.

Review findings

10. Given the priority this Government attaches to housing, the clear direction set by the Spending Review and the magnitude of the delivery task we face, the Review found a clear case for the continuing existence of the HCA. It therefore focused on the ways the HCA should evolve to deliver most effectively and efficiently over the current Parliament and beyond.
11. DCLG and its arm's length bodies have agreed to adopt a 'Group' approach in order to deliver more integrated, efficient and effective outcomes. This includes a continued focus on reducing administration costs, for example by sharing corporate services. We heard general support for the HCA's involvement and have highlighted where further work is required to make it a reality.

Conclusion 1: Given the priority attached by the Government to housing, there remains a clear and continuing need for a delivery body carrying out the functions of the Homes and Communities Agency, operating as part of a better integrated group of organisations affiliated to the Department for Communities and Local Government.

Purpose and functions

Purpose of the Agency

12. Views about what the purpose of the HCA should be and the clarity of its current mission varied. Importantly, amongst those who thought its purpose was clear, there was not always a consistent description of what it was, particularly the extent of the Agency's role in regeneration, growth and devolution. It was almost universally clear that the HCA's overwhelming and primary focus is housing delivery with a consensus that this had evolved over time to reflect changing priorities. This is clearly where the Agency's efforts should be focused.

13. Some stakeholders pointed specifically to a weakening focus on the 'communities' aspect of its function over time and highlighted the risk of losing the positive role that the HCA has played beyond housing, for example its recent part in supporting Government intervention at the former Sahaviriya Steel Industries (SSI) site in Redcar. Accepting the need for sufficient discretion to make the right decision according to circumstances, it was not clear that the way different objectives should be prioritised or traded-off at a strategic level was adequately described or understood within or beyond the Agency.

14. The HCA is responsible for a substantial part of the Government support to the delivery of the many more homes that we want to see built over the Parliament and to drive up longer term housing supply. We heard inconsistent descriptions of how far the HCA currently acts in an advisory capacity and as a facilitator of housing delivery with its partners, as well as delivering directly on its own programme targets. Some of this facilitation work is well-received outside the Agency but its extent appears to vary between the HCA's different local operating areas. This variation may be logical and desirable but was not articulated clearly as a strategy. We also heard a mixture of views about whether the HCA should focus on its direct delivery objectives or continue to play this facilitative role with a view to unlocking as much housing supply as possible.

15. Clear progress has been made in bringing the HCA together as a single organisation since its creation in 2008 and subsequent changes to its functions but there remain palpable differences in culture, including between different parts of the organisation. Many agreed that there was some potential to improve further the coherence and singular purpose of an agency in which functions and local offices have felt federated or 'bolted together'. This was clear in the way some external stakeholders talked about different functions and the HCA's own 2015 Staff Survey showed that only 40% of staff believe that the organisation works together well as an agency.
16. Given the scale of its delivery task, the HCA needs strong strategic capacity at its centre over the coming Parliament. However, just 35% of the HCA's staff taking part in its 2015 Staff Survey believe that the Directors' Group has a clear vision for the future. While current arrangements did not prevent the HCA delivering well over the last Parliament, the Review team found insufficient evidence that the strategic vision is formed to the extent that the Agency will require for the future. Related to this, some stakeholders characterised the HCA as a reactive or passive organisation, highlighting an opportunity for it to lead and take a more proactive and innovative role in shaping the housing sector. A stronger strategic capability would better enable the HCA to take a single view across its functions. It could act as a guiding mind, helping the HCA respond coherently to change, for example formulating clear strategies for the Agency's role in a devolved landscape. It could also set out how the Agency's approach should evolve in a cyclical market and dynamic area of public policy, and in helping the sector to develop innovative ways of driving up housing supply.
17. The Review team heard repeatedly from HCA staff that the Agency was ready to deliver whatever it was asked to do. Many of the staff we met showed real commitment and the Agency has shown an admirable ability to adapt over the last Parliament, responding at pace to deliver Government programmes. It now needs to combine its strong delivery record with an enhanced ability to take a clear view about the best way to deploy its resources, contributing a

credible, expert and strategic delivery perspective to policy-making that maximises housing outputs.

Conclusion 2: The purpose of the HCA as an agency with a principal objective on housing delivery and subordinate objectives including regeneration, growth and devolution will be more clearly formalised. To ensure the HCA's future approach is best fitted to government priorities, a new statement of purpose will better clarify the relative priorities of its objectives.

Conclusion 3: A new statement of purpose will describe the HCA's role, beyond direct delivery of its own programme targets. It will recognise the work of the Agency in facilitation and the provision of support to partners in pursuit of government objectives to drive up housing supply and promote home ownership. This includes the role of HCA functions such as ATLAS. The HCA's objectives, business plans and measures of its performance will reflect this.

Conclusion 4: To reflect a principal focus on housing, the HCA should consider adopting a new operating name that better reflects its current role.

Conclusion 5: The HCA needs to continue the work it has started to build a more unified culture which recognises differences between functions but provides a sense of common identity and purpose.

Conclusion 6: The new, clearer description of the HCA's future purpose and strategy should be communicated by the Agency's leadership to its staff and partners.

Conclusion 7: The HCA requires a more unified and integrated executive leadership and a stronger strategic function at the centre of the Agency.

Functions of the Agency and its status

18. The Review looked at each of the HCA's functions, assessing the need for their continued existence and whether they could be delivered more effectively in an alternative organisational form.

HCA's regulatory function

19. The necessity of delivering at arm's length from government was clearest for the HCA's regulatory function. Registered providers of social housing, lenders and others in the sector were absolutely clear about the value of an independent, strong and credible regulator. We received much evidence that the regulator is seen as such.
20. Since the HCA began making recoverable investments, its governance arrangements and an operational 'ethical wall' have ensured that information is not inappropriately exchanged between the regulator and the HCA-Investment function which, in some cases, deals with registered providers as a creditor. Although some stakeholders supported the simplicity of a single agency, the Review found some concerns about the potential conflict of interest which has grown in significance since HCA-Investments was established in 2014. While there was no suggestion that any conflict has materialised, there has also been no significant test. A downturn in the housing market could provide that and the complexities of the HCA's investment role and the regulated sector itself are also likely to increase over time. Some stakeholders described complementarity between the regulatory function and other parts of the Agency but key senior staff were clear that this was at the margins and it appears to be reproducible between two closely-collaborating organisations, not reliant on the current structure. Overall, a number of those we spoke to favoured separation of the regulatory function.
21. It is also clear that current governance arrangements around the regulatory function are complex. Many told us that, although they work, this was as a result of trust, good relationships and senior HCA leaders working in the right way in spite of the formal position. The level of independence the regulatory function has within the Agency exists for good reasons but also creates some

unusual lines of accountability. While the HCA Board has collective responsibility for the HCA as body corporate and carries the legal and reputational risk for the regulator, it does not have full control of the way it operates. As a member of the independent regulatory committee put it, “If the regulator fouls up, they [the HCA Board] carry the can”. As Accounting Officer for the HCA, the Chief Executive holds responsibility for the resources deployed by the regulatory function but with a similar lack of full operational control.

22. The Review examined options for merging the regulatory function with another regulator or sector body or a non-sector specific regulatory body (please see Annex E for further analysis of these measures). Amongst those who argued that the regulator should be separated from the rest of the HCA, there was a clear view that the character of the regulatory role did not lend itself to a merger with any other regulator. There was also a clear concern that incorporating the regulatory function into another organisation could result in a loss of focus on the sector or a change to the regulatory approach. The current focus on economic regulation provides assurance in a sector with around £67 billion of private debt and underpins the preferential lending rates available to registered providers which are crucial in supporting housing supply.

Conclusion 8: Reflecting the change of circumstances since 2014 when HCA-Investments was established, the HCA’s regulatory function will be separated into a new non-departmental public body. It will retain close working relationships with the HCA and DCLG and, in line with a ‘DCLG Group’ approach, share corporate services. This change in organisational structure and governance will not impact on operations or the regulatory approach currently in place.

Conclusion 9: Until the formal separation of the regulatory function, the HCA and DCLG should actively explore options for increasing the operational independence of the Executive Director of Regulation. The HCA should ensure in the interim that protocols implementing its

‘ethical wall’ arrangements between the Agency’s investment and regulatory arms continue to have sufficient formality and profile.

HCA’s other functions

23. There was strong consensus both within and outside government that the current status of the HCA, as an executive NDPB, remains suitable and relevant. Many stakeholders thought its current form struck an appropriate ‘balance’. They pointed to the distance from government required to provide operational independence, acquire commercial skills, deliver commercial agility and facilitate long-term thinking. The consensus was that NDPB status provides an appropriate and necessary proximity to policy-making and the setting of government priorities. The HCA has been able to deliver effectively under current arrangements.
24. A small number of those that we spoke to saw the advantages of some of the HCA’s functions on land, development and particularly investment having greater independence from government, operating in a more predominantly commercial model like the Green Investment Bank or British Business Bank. There were a number of arguments for this view (see Annex F) including suggestions that the organisation would be more agile. One factor is the more generous delegations on remuneration, administration and capital spending in place for some more commercial entities, though there is no intrinsic link between status and the freedom to grant such flexibility.
25. Those who argued for the retention of the HCA’s functions in a single entity cited the complementarity of its different functions which allow the Agency, as one of its directors described it, to bring a ‘cocktail’ of interventions to bear on individual projects and drive the project ‘pipeline’ as hard as possible. While organisations could work together to achieve similar outcomes, alignment of purpose will help drive housing supply. The most persuasive argument against further commercialisation of the HCA investment function is that it is not a purely commercial operation and has not been tasked with making a financial profit. Instead, HCA-Investments operates on the basis of a ‘double

bottom line' where the objective is to balance policy outputs (housing delivery) and financial return by making investments that a commercial lender might not. The HCA's current status, most argued, allows the right balance of commercial rigour and policy considerations to be blended in the Agency's approach.

26. As part of the work on efficiency, described below, the Review asked whether there are commercial opportunities to dispose of HCA loan portfolios.

Conclusion 10: The case for the separation of HCA-Investments from the rest of the Agency and the possibility of establishing a more commercial entity were examined. We conclude that the HCA should remain an executive non-departmental public body, retaining all of its existing functions except regulation. This should be reviewed periodically, particularly following any significant change in policy direction and the role of the Agency or its individual functions.

Governance

27. Following Cabinet Office guidance, the Review looked carefully at the HCA's adherence to principles of good corporate governance. We examined how the Agency is held to account by its sponsor department for delivery of its objectives and against the requirements of any arm's-length body, as well as the governance of decision-making.

Decision-taking

28. For projects, current delegation arrangements require capital decisions to be referred from the HCA to DCLG above £10 million and onwards to the Treasury above £20 million, making decision-making processes beyond the HCA relevant. Within the HCA, individual functions operate delegation models which comply with the requirements of Managing Public Money.

29. The Review found general acceptance of the need for policy decisions to be taken by DCLG and delivery decisions to be made by the HCA. While structures were generally seen to operate effectively, there was some frustration with the density of governance arrangements. Governance structures for decision-making are evolving, in part to reflect the Spending Review. However, even with the intended changes, structures in both DCLG and the HCA remain overly complex and are not well understood.

30. We heard evidence of decisions being taken multiple times with the local operating area, central HCA and DCLG governance processes sometimes considering the same decision or issue sequentially. It is clear that in both organisations the governance has been designed with too little reference to the way that it should interact and there is potential to streamline arrangements by taking a 'DCLG Group' perspective. This would yield efficiency benefits for government but also address the frustrations voiced by some external stakeholders about the speed of decision-making. They pointed to the apparent number of decision-making steps, disproportionate approaches to small changes in a project proposal, a lack of clarity about

process or timetable and additional delays that result from the referral of decisions to DCLG or the Treasury. Some HCA staff also experience some frustration with the arrangements and shared a view with the Agency's partners that capable staff at the front line should be more empowered to take decisions. We heard that staff time could be saved by standardising the format of papers for decision-making bodies, especially if the same decision is looked at more than once. We heard evidence that the speed of decision-making is particularly important where counterparties, particularly of the investment function, experience financial distress. Overall there appears to be a risk that, particularly for SMEs, governance arrangements make engaging with the HCA less attractive than it could be, notwithstanding the clear need to have robust processes around the spending of public money.

31. The HCA Board was generally considered to play the correct role but we received some evidence about operational decisions that should have been made at executive level making their way on to the Board agenda. A number of those we spoke to pointed to the need for decision-making processes to be kept under review as transfer of power to local areas takes place through devolution deals.
32. The HCA's Chief Risk Officer is currently part of HCA-Investments and does not have a remit across other HCA functions like land which deal with the same counterparties and contribute to concentrations of credit risk. We received clear evidence that the best practice governance model for banking operations was a three 'lines of defence' approach, involving 1) day to day decisions and risk control; 2) an independent risk function; and 3) independent assurance, normally through internal and external audit. This argues for a Chief Risk Officer operating at executive team level across HCA's functions. Some of those we spoke to pointed to an opportunity to establish a single credit risk function for the 'DCLG Group', removing duplication in current arrangements where the function exist in both organisations.

Conclusion 11: Governance structures across DCLG and the HCA will be reviewed to deliver a revised DCLG Group governance model for

decision-making. The new arrangements will remove duplicate decision-making bodies, and ensure that decisions are being taken in the most streamlined way possible, while fulfilling the requirements of good governance and good management of public money. The model should be regularly reviewed and revised to reflect devolution arrangements.

Conclusion 12: DCLG and the HCA will agree an approach to standardise the documentation required for project decision-taking across both organisations.

Conclusion 13: DCLG and the HCA will work with the Treasury to review HCA project delegations and whether current arrangements strike the correct balance between spending control and agility of decision-making. This will include arrangements in situations where investment counterparties experience financial distress.

Conclusion 14: The HCA's Chief Risk Officer should operate at Executive Team level with a remit across the organisation. There should be a long term ambition to institute a single Chief Risk Officer function for the whole 'DCLG Group', with a remit that covers HCA programmes, DCLG policy and oversight of Financial Transactions devolved to local areas. This would require a dual reporting line to both the HCA CEO and the DCLG Permanent Secretary.

The accountability relationship between DCLG and the HCA

33. At a working level, the Review found a strong and improving relationship between HCA delivery teams and DCLG policy officials, partly as a result of a recent co-location. Staff on both sides were positive that this was likely to deliver better outcomes. External stakeholders generally shared a positive impression of the working relationship between the two organisations, although sometimes found the boundaries between the two organisations unclear.

34. The HCA's relationship with DCLG is managed by a sponsorship team which ensures formal arrangements are in place for the tasking of the Agency, to

monitor delivery and to agree the funding that the HCA needs. The recent move of this responsibility to DCLG's finance directorate has been well-received but, while some progress has been made, the sponsorship function has not yet acquired sufficient authority. Further clarity about how strategic housing and wider policy input to the sponsorship arrangement will be achieved is also required. Further progress needs to be made to embed a new way of working, rectifying previous issues to ensure that an annual framework document is agreed with the HCA in a timely fashion, appointment processes for key roles are improved and that proper commissioning is an integrated part of the policy development process. There was some concern about the clarity of DCLG's formal tasking of the HCA, with the agreement of its detail too reliant on informal conversations between working contacts rather than clear and sufficiently structured commissioning. This approach holds risks for the future where what is delivered may not be what everyone thinks they have agreed.

35. From the evidence we took, it appears that the consequence of complicated governance, a sponsorship arrangement that is not as strong as it could be, and some healthy working relationships, has been a tendency for informal contact to become the mechanism by which decisions are taken. Many pointed to the need for more clarity about where and how the HCA is governed and held to account and the adoption of more formality in those interactions. We heard about a tendency to focus on the issue of the day rather than the strategic. A stronger sponsorship function acting as the controlling mind in the accountability relationship and a stronger HCA strategic centre would help address this.

36. Management information (MI) about HCA performance was considered to have improved, in part since the introduction of a monthly 'scorecard' but the approach to gathering and disseminating MI was seen by some as bureaucratic. Clear information does not always reach senior DCLG officials and ministers even if it is available. There is a tendency for information to be reworked for different committees and data to be focused on delivery of

specific targets rather than broader and aggregate outputs. An ongoing review of MI holds promise for making the required improvements.

37. Finally, a number of those we interviewed raised the profile of HCA officials with DCLG ministers and the tendency for DCLG officials to act as intermediaries in the relationship. With clear governance structures and MI in place, it is likely that more frequent contact would be productive as a means of assuring ministers that the HCA is delivering effectively both its programme targets and its wider contribution to housing objectives.

Conclusion 15: Greater coherence and formality will be brought to the tasking, commissioning and governance of the HCA by DCLG.

Communication between DCLG and the HCA needs to achieve a clearer separation between healthy day-to-day contact and the formal governance of the Agency. This will be taken forward as part of the joint governance review (Conclusion 11). Clear lines of accountability for housing delivery and financial performance will be retained. The sponsorship team will be strengthened and clearer arrangements for strategic housing input to sponsorship identified.

Conclusion 16: Management information needs to flow through the new governance structure providing both programme-level data and aggregate data measuring performance against strategic objectives. This is already being picked up in an ongoing review of management information which should be aligned with revised governance arrangements.

Conclusion 17: Using the framework provided by improved governance arrangements and management information, Ministers will increase the frequency of meetings with HCA leaders and key programme managers as part of assuring progress towards the Government's housing objectives.

Effectiveness and efficiency

38. The HCA faces the dual challenge across the Parliament of reducing its administration spending by 30% whilst delivering a more ambitious agenda than ever before. The Agency appeared to be responding to this positively and making plans to find the appropriate efficiencies. The Review used the Spending Review context to frame its assessment of efficiency and effectiveness.

Measures of effectiveness

39. For Agency staff and many others, the most direct demonstration of HCA's effective delivery record is the consistent and impressive achievement of annual output targets since its creation in 2008. The HCA's staff were clear that targets were stretching to achieve but because they have historically been set by negotiation around its own delivery proposals, it is hard to be sure how far the targets have truly have tested the boundaries of ambitious delivery. One attractive proposal was that DCLG should consider how to set the Agency stretch targets above baseline, allowing it to demonstrate even stronger future performance in a clear framework, potentially over multiple years. There was agreement that output targets are only one measure of the organisation's effectiveness. The best description of the Agency's true effectiveness was around the additionality of its activity, directly or indirectly resulting in the building of homes that would otherwise not exist.

40. Stakeholder feedback is an important measure of effectiveness, particularly for an NDPB whose mission relies significantly on the quality of its work with customers and partners. Although the HCA's brand is recognisable in the sector, views about the strength of the HCA's stakeholder relationships and the organisation's credibility were very mixed. This seems in part to reflect individual experiences and because the variation cuts across different HCA functions and different parts of the country, no clear patterns were evident. While stakeholder feedback appears to be received on an ad hoc basis by HCA teams in the course of business, a number of interviewees, including

some senior HCA staff, agreed that it would be useful to collect this on a more systematic basis and to act on the results in the spirit of continuous improvement. One issue we identified was poor understanding in some parts of the sector of the purpose of HCA-Investments. We also identified that although there is a clear need for the HCA to build productive relationships with SMEs in this Parliament, it does not yet seem to have a fully developed strategy to engage them. Some interviewees suggested the HCA could expand its use of intermediaries (banks and other commercial partners) to improve its engagement with small builders as part of this strategy.

41. HCA is responsible for taking ownership and disposing of government-owned land that is suitable for housing, working with the Cabinet Office Government Property Unit and DCLG. We found other government departments and local partners such as councils confused about the respective role of the two bodies. There was evidence that the HCA needs to work harder to minimise the process around transferring land and build on past success to persuade departments with their own land and estate management capability that the Agency can achieve better outcomes by disposing of the land for housing.

Conclusion 18: DCLG and the HCA should agree whether a stretch target above baseline requirements should be set for the Agency on individual programmes, facilitation work and / or for overall performance.

Conclusion 19: The HCA should consider how it can build a more coherent view of stakeholder attitudes without significant expenditure and ensure it acts on the results to continually improve.

Conclusion 20: The HCA should develop a clear strategy to raise the profile of its products in the housing sector (particularly with SMEs), considering the option of making greater use of intermediaries. In communicating its purpose and mission to partners, the HCA should ensure it clarifies the objectives and operating approach of its investment function.

Conclusion 21: The HCA needs to work more effectively with the Cabinet Office Government Property Unit on the disposal of public sector land. Jointly agreed targets, responsibilities and priorities could aid this.

Skills

42. Many of those we spoke to paid tribute to the capability of HCA staff, many of whom are clearly talented professionals doing an excellent job. As in any organisation, the quality of staff was not felt to be universally excellent and some stakeholders cited examples of poor experiences with HCA staff who lacked the requisite capabilities for their role, particularly at junior and middle manager level. It is abundantly clear that the scale and nature of the HCA's delivery task for this Parliament requires its skills and capabilities to evolve while the Agency delivers efficiency savings in line with its Spending Review settlement. The Agency is currently undertaking a skills audit that should provide clarity about the baseline capability of the organisation for this purpose.
43. There was very broad consensus within and outside the HCA that the new Accelerated Construction would require the Agency to acquire skills that it does not currently have, for example the right commercial project managers for large projects or staff able to manage sales relationships. Senior managers identified this readily and were planning to acquire these skills. The sufficiency of the Agency's expertise on land was questioned in the context of its expanding role in the acquisition and disposal of public sector land. More generally, the Review found a consensus that overall, for the future, the Agency needs to become a more specialist organisation with fewer junior staff in administration roles.
44. HCA staff turnover stands at 8% and has risen from recent levels. It was felt that the staff the HCA most needed to keep were those that were most likely to be lost to the wider sector and it was suggested that a more coherent plan for retention and development of talent was needed. Some pointed to the potential for the HCA to make better use of some of the skills that already exist, for example using specialists more effectively rather than deploying

them into generalist roles. But some of the commercial organisations we spoke to highlighted the need for the HCA to compete for skills in a market where many players are expanding and some specific skills are in short supply. This challenge will require the Agency to develop a compelling offer for key specialist and commercial staff, including paying competitive salaries for these skills.

45. Many of those we spoke to commented on the capabilities of specific HCA functions. Local authorities were clear in their praise of ATLAS for its quality. We found a consensus that the HCA's regulatory function has successfully up-skilled to address historic deficits in its capability, though several external stakeholders and regulated providers noted ongoing gaps in commercial skills at a more junior level. Further, there was agreement that, as the complexity of registered providers' businesses and the wider environment increases, the capabilities of the regulatory function will need to be kept under review. Some felt nervous about its capacity to intervene simultaneously with multiple providers, though there are some contingency plans in place. Finally, although the progress made in establishing a new HCA-Investments function since 2014 was praised and the capability of the function well thought of, there was a concern about its reliance on secondees which raises questions about its long term sustainability.

Conclusion 22: The HCA's mission for this Parliament requires it to transform its capability to be more active in the land market, deliver Accelerated Construction and to achieve targets on Shared Ownership and Starter Homes. The HCA should make a detailed assessment of its future skills needs as a matter of priority, particularly focussing on what is required to deliver new programmes.

Conclusion 23: Future skills requirements should be triangulated with the planned skills audit and efficiency plans to produce a strategy for the development of the correct skills base for the Agency.

Conclusion 24: The HCA and DCLG should ensure that the Government has a sufficiently sustainable plan for the future staffing of HCA-

Investments, ensuring that competitive salaries are offered to attract the right calibre of staff.

Conclusion 25: The HCA should consider its approach to skills and talent management with a view to making the HCA a more specialist, professional organisation. Linking into work by the Cabinet Office on commercial pay bands it should review the career offer it makes to specialist commercial staff, while ensuring that it benchmarks salaries paid to other staff.

Conclusion 26: The capabilities of the regulatory function should be kept under review.

Measures of efficiency

46. The HCA was able to demonstrate clearly for some of its functions how it has tested the efficiency of its processes and, by comparing to benchmark costs, that it has mechanisms for assuring that value for money is achieved in absolute terms.
47. The future challenge for the Agency is to take this further and develop a culture of assuring 'best value', securing continuous improvement in the way it delivers to improve economy, efficiency and effectiveness. We found some evidence of the HCA actively using or exploring potential indicators of 'best value' such as benchmarking the size and cost of its existing or new functions; or looking at metrics such as speed of decision-making or stakeholder feedback. This is not always easy where the HCA is working in a bespoke way in very different environments and circumstances across the country and comparable organisations are not always available. However, there is potential to make this thinking more instinctive, particularly as the Agency establishes new programmes like Accelerated Construction.
48. Some stakeholders were critical about the multiplicity of the HCA's delivery programmes. This largely reflects a historic position as the Spending Review announced a consolidation of programmes, primarily via the creation of a single fund for long and short term loan funding. The HCA does devote

significant resource to managing programmes which are no longer 'live' and we were told that this makes them a considerable distraction. There are a number of options, including the sale of past loan books, that could be explored as a means of streamlining the management of legacy programmes and releasing resources to current priorities. We did not see evidence of a strategy to explore these options systematically.

49. There was general support for sharing corporate functions across the 'DCLG Group' but nervousness amongst some that the work to make this a reality was moving too slowly.
50. One opportunity could lie in the potential to improve efficiency through better IT solutions, particularly for the HCA's investment function where systems currently require manual interventions and would benefit from increased automation. Consideration is being given to purchase of an 'off-the-shelf' system rather than further development of a bespoke software solution.
51. Greater recovery of costs could play a part in achieving administration budget reductions. We heard no objections to the idea of HCA-Investments charging developers for loan bids, in line with the approach taken by banks, as long as their level was not a disincentive for SMEs to apply for funding. A number of stakeholders made the point that charging registered providers for ongoing (and potentially one-off) regulation services would result in calls for increased transparency from the regulator to demonstrate best value.
52. The HCA had established a change programme designed to deliver its administration savings. We found a mixture of views amongst senior HCA staff about the programme. While some were confident it would deliver, others were concerned that it had focused too heavily on process rather than content. The Review team took the latter view and was concerned about how provisional savings had been identified. There was not clear evidence that the business impact of making the identified savings has been described or that decisions about which savings to make had considered this when prioritising. HCA staff we spoke to were unaware of the change plans and uninvolved in them. Given the need to make 30% administration savings over the

Parliament, there was a consensus that the change programme will need to be a priority for the Agency's leaders.

Conclusion 27: The HCA should develop (via its ongoing change programme and continuous improvement) a clearer focus on understanding and demonstrating best value. This is particularly important when setting up new programmes, such as Accelerated Construction.

Conclusion 28: The HCA should review its change programme as a matter of urgency, assuring itself that admin savings are made across the Agency in a prioritised fashion, conscious of the impact on delivery and pursuing transformation approaches that maintain delivery. Progress on the change programme should be accelerated. The HCA should communicate more clearly to staff about change and involve them in generating ideas about working in a smarter and more streamlined way.

Conclusion 29: The HCA should develop a strategy for the management of legacy programmes, taking account of the need to manage risk appropriately, making clear choices about prioritisation, and with a view to reallocating resources to current ministerial priorities. This includes exploring the sale of existing loan books.

Conclusion 30: Following a 'DCLG Group' approach, the HCA should continue to play its part in work to share corporate functions. This approach should be the default for all corporate functions.

Conclusion 31: The HCA and DCLG should examine the case for more significant investment in the HCA's IT systems to improve risk management and efficiency and should actively explore the option of procuring an off-the-shelf system for HCA-Investments.

Conclusion 32: The HCA should continue to explore opportunities for cost recovery, including HCA-Investments charging developers for loan applications.

Operating areas

53. It is indisputable that the HCA requires a presence in local areas and this was clear from the evidence taken by the Review, which demonstrated the need to understand local markets and partners. Many stakeholders, particularly local authorities, were supportive of the HCA's local work and complimentary about its quality, valuing relationships with the Agency, particularly at senior levels. However, looking forward, we also received clear evidence that the current operating area model needs significant change to deliver more effectively and to improve efficiency.
54. The approach in different operating areas varies. This is not necessarily a problem, but it was unclear how far this was a strategic and conscious choice reflecting real differences in the delivery environment or whether it reflects the management style of individual Executive Directors. We heard no clear rationale for having five operating areas led by an Executive Director and some of our interviewees, including senior HCA staff, proposed fewer. A number of interviewees supported taking a more thematic approach locally, reducing the focus on managing delivery through small geographic patches. This would produce clearer lines of accountability through the Agency and then up to ministers. There is also potential to remove some of the functionality of operating area structures which give them the character of independent delivery organisations rather than strategically-tasks local presences of the Agency with appropriate flexibility to adapt to circumstances. These could be delivered more effectively as 'do-once' central functions, irrespective of where staff are based. This includes business support and transactional functions which support programmes such as Help to Buy: Equity Loan, performance reporting systems which create duplication at local and national level, and local 'strategy' functions.
55. Although some good work seems to take place, there appears to be greater opportunity for closer working between local HCA teams, the local presence of the Department for Business, Innovation and Skills and other local DCLG

staff who could then have more joined-up conversations with areas. This is already the subject of ongoing work.

56. Given the ongoing devolution of housing powers and funding to local areas in England, and the evolving role of Mayors and Combined Authorities in housing, there was consensus that the HCA's local model should be kept under ongoing review. Views varied about the role that the HCA should play post-devolution and solutions will need to fit the terms of deals and local circumstances. A stronger HCA strategic centre would be well-placed to help formulate the Agency's response.

Conclusion 33: While it is indisputable that the HCA requires a local presence to deliver its objectives, it should overhaul its operating model to improve efficiency and effectiveness for the future. Specifically the HCA should:

- **review the nature and size of its local presence in each area to reflect the level of demand and opportunity;**
- **actively explore a more thematic approach to local delivery, with clear reporting lines through the organisation on each delivery target or programme (whilst ensuring that local staff do not work in functional silos);**
- **identify which functions currently delivered in local operating areas can be delivered more efficiently and effectively as a central function;**
- **define where variation in approach between areas is desirable, how this supports organisational objectives and where local managers have discretion;**
- **keep its operating model at local level under review, particularly given ongoing devolution;**

- **actively explore how a revised local presence can best align its work with local teams of the Department for Business, Innovation and Skills, drawing on ongoing work; and**
- **reconsider its estates strategy in light of the new operating model.**

Full list of conclusions and next steps

57. This Review sets out a series of improvements that will help the HCA deliver more effectively over this Parliament and beyond. The full list of conclusions is reproduced below.

58. DCLG and the HCA will agree an implementation plan with the Agency over the Summer of 2016. The HCA will be given the proper degree of freedom to deliver the proposals in the most effective way and is expected to involve its staff appropriately, providing suitable opportunities for them to help shape the solutions. Delivery of Government housing programmes will continue at pace in parallel.

59. DCLG ministers will expect reports describing progress in implementing the Review in September and before Christmas 2016.

Full list of conclusions

Conclusion 1: Given the priority attached by the Government to housing, there remains a clear and continuing need for a delivery body carrying out the functions of the Homes and Communities Agency, operating as part of a better integrated group of organisations affiliated to the Department for Communities and Local Government.

Conclusion 2: The purpose of the HCA as an agency with a principal objective on housing delivery and subordinate objectives including regeneration, growth and devolution will be more clearly formalised. To ensure the HCA's future approach is best fitted to government priorities, a new statement of purpose will better clarify the relative priorities of its objectives.

Conclusion 3: A new statement of purpose will describe the HCA's role, beyond direct delivery of its own programme targets. It will recognise the work of the Agency in facilitation and the provision of support to partners in pursuit of Government objectives to drive up housing supply and promote home ownership. This includes the role of HCA functions such as ATLAS. The HCA's objectives, business plans and measures of its performance will reflect this.

Conclusion 4: To reflect a principal focus on housing, the HCA should consider adopting a new operating name that better reflects its current role.

Conclusion 5: The HCA needs to continue the work it has started to build a more unified culture which recognises differences between functions but provides a sense of common identity and purpose.

Conclusion 6: The new, clearer description of the HCA's future purpose and strategy should be communicated by the Agency's leadership to its staff and partners.

Conclusion 7: The HCA requires a more unified and integrated executive leadership and a stronger strategic function at the centre of the Agency.

Conclusion 8: Reflecting the change of circumstances since 2014 when HCA-Investments was established, the HCA's regulatory function will be separated into a new non-departmental public body. It will retain close working relationships with the HCA and DCLG and, in line with a 'DCLG Group' approach, share corporate services. This change in organisational structure and governance will not impact on operations or the regulatory approach currently in place.

Conclusion 9: Until the formal separation of the regulatory function, the HCA and DCLG should actively explore options for increasing the operational independence of the Executive Director of Regulation. The HCA should ensure in the interim that protocols implementing its

‘ethical wall’ arrangements between the Agency’s investment and regulatory arms continue to have sufficient formality and profile.

Conclusion 10: The case for the separation of HCA-Investments from the rest of the Agency and the possibility of establishing a more commercial entity were examined. We conclude that the HCA should remain an executive non-departmental public body, retaining all of its existing functions except regulation. This should be reviewed periodically, particularly following any significant change in policy direction and the role of the Agency or its individual functions.

Conclusion 11: Governance structures across DCLG and the HCA will be reviewed to deliver a revised DCLG Group governance model for decision-making. The new arrangements will remove duplicate decision-making bodies, and ensure that decisions are being taken in the most streamlined way possible, while fulfilling the requirements of good governance and good management of public money. The model should be regularly reviewed and revised to reflect devolution arrangements.

Conclusion 12: DCLG and the HCA will agree an approach to standardise the documentation required for project decision-taking across both organisations.

Conclusion 13: DCLG and the HCA will work with the Treasury to review HCA project delegations and whether current arrangements strike the correct balance between spending control and agility of decision-making. This will include arrangements in situations where investment counterparties experience financial distress.

Conclusion 14: The HCA’s Chief Risk Officer should operate at Executive Team level with a remit across the organisation. There should be a long term ambition to institute a single Chief Risk Officer function for the whole ‘DCLG Group’, with a remit that covers HCA programmes, DCLG policy and oversight of Financial Transactions devolved to local

areas. This would require a dual reporting line to both the HCA CEO and the DCLG Permanent Secretary.

Conclusion 15: Greater coherence and formality will be brought to the tasking, commissioning and governance of the HCA by DCLG.

Communication between DCLG and the HCA needs to achieve a clearer separation between healthy day-to-day contact and the formal governance of the Agency. This will be taken forward as part of the joint governance review (Conclusion 11). Clear lines of accountability for housing delivery and financial performance will be retained. The sponsorship team will be strengthened and clearer arrangements for strategic housing input to sponsorship identified.

Conclusion 16: Management information needs to flow through the new governance structure providing both programme-level data and aggregate data measuring performance against strategic objectives. This is already being picked up in an ongoing review of management information which should be aligned with revised governance arrangements.

Conclusion 17: Using the framework provided by improved governance arrangements and management information, Ministers will increase the frequency of meetings with HCA leaders and key programme managers as part of assuring progress towards the Government's housing objectives.

Conclusion 18: DCLG and the HCA should agree whether a stretch target above baseline requirements should be set for the Agency on individual programmes, facilitation work and / or for overall performance.

Conclusion 19: The HCA should consider how it can build a more coherent view of stakeholder attitudes without significant expenditure and ensure it acts on the results to continually improve.

Conclusion 20: The HCA should develop a clear strategy to raise the profile of its products in the housing sector (particularly with SMEs), considering the option of making greater use of intermediaries. In communicating its purpose and mission to partners, the HCA should ensure it clarifies the objectives and operating approach of its investment function.

Conclusion 21: The HCA needs to work more effectively with the Cabinet Office Government Property Unit on the disposal of public sector land. Jointly agreed targets, responsibilities and priorities could aid this.

Conclusion 22: The HCA's mission for this Parliament requires it to transform its capability to be more active in the land market, deliver Accelerated Construction and to achieve targets on Shared Ownership and Starter Homes. The HCA should make a detailed assessment of its future skills needs as a matter of priority, particularly focussing on what is required to deliver new programmes.

Conclusion 23: Future skills requirements should be triangulated with the planned skills audit and efficiency plans to produce a strategy for the development of the correct skills base for the Agency.

Conclusion 24: The HCA and DCLG should ensure that the Government has a sufficiently sustainable plan for the future staffing of HCA-Investments, ensuring that competitive salaries are offered to attract the right calibre of staff.

Conclusion 25: The HCA should consider its approach to skills and talent management with a view to making the HCA a more specialist, professional organisation. Linking into work by the Cabinet Office on commercial pay bands it should review the career offer it makes to specialist commercial staff, while ensuring that it benchmarks salaries paid to other staff.

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Conclusion 32: The HCA should continue to explore opportunities for cost recovery, including HCA-Investments charging developers for loan applications.

Conclusion 33: While it is indisputable that the HCA requires a local presence to deliver its objectives, it should overhaul its operating model to improve efficiency and effectiveness for the future. Specifically the HCA should:

- review the nature and size of its local presence in each area to reflect the level of demand and opportunity;
- actively explore a more thematic approach to local delivery, with clear reporting lines through the organisation on each delivery target or programme (whilst ensuring that local staff do not work in functional silos);
- identify which functions currently delivered in local operating areas can be delivered more efficiently and effectively as a central function;
- define where variation in approach between areas is desirable, how this supports organisational objectives and where local managers have discretion;
- keep its operating model at local level under review, particularly given ongoing devolution;
- actively explore how a revised local presence can best align its work with local teams of the Department for Business, Innovation and Skills, drawing on ongoing work; and
- reconsider its estates strategy in light of the new operating model.

Annex A – Written Ministerial Statement by Brandon Lewis MP, Minister of State for Housing and Planning (10 February 2016)

Review of the Homes and Communities Agency

I am today announcing the launch of a Review of the Homes and Communities Agency in line with the requirement on all government departments to regularly review non-departmental public bodies. Established in 2008, the Agency is the national housing, land and regeneration agency and the regulator of registered social housing providers in England.

The Spending Review underlined the priority this Government attaches to our ambition to build many more homes this Parliament and to increase home ownership. Building on the successful contribution the Homes and Communities Agency made in the last Parliament, this Review will ensure that we are well-placed to deliver the Government's objectives and will:

- i) Examine the continuing need for a non-departmental public body, covering:
 - o how each of the Agency's functions contributes to government objectives;
 - o whether each function and the body is still required; and
 - o the best future delivery options.

- ii) Examine the capacity of the Homes and Communities Agency to deliver more efficiently and effectively.

- iii) Examine whether corporate governance and management arrangements are sufficiently robust and transparent and ensure that Agency is operating in line with recognised principles of good corporate governance.

We will be seeking evidence from a wide range of sources, including the Agency itself, and there will be an opportunity for interested stakeholders to feed in views. I will inform the House once the Review is complete and copies of its report will be placed in the Library of the House.

Annex B – The Review’s lines of enquiry

Is HCA’s purpose clear and does it remain appropriate? Has a shared sense of its priorities been established with DCLG and communicated to staff and to stakeholders?

- Do HCA’s functions make a coherent and complementary set?
- How is HCA balancing its critical role in delivering government housing objectives with objectives on regulation of registered social housing providers, regeneration, decentralisation, local economic growth and support to small and medium enterprises?

Is HCA currently delivering its functions effectively and is it well-placed to meet future challenges? What would help the HCA deliver more effectively?

- How effectively has HCA performed its functions to date? Does the HCA meet its overall goals and delivery outcomes? Is each function still required?
- Would an alternative delivery model be more effective for any of HCA’s functions and what are the trade-offs? (considering separation of functions, full or partial merger, delivery inside or outside of government, commercial models)
- Where the HCA works with or alongside DCLG and other government bodies, are respective roles clear and relationships productive?
- Does the HCA have healthy and productive relationships with its stakeholders?
- Does HCA have credibility in the sector with sufficient identity and profile?

As part of central government with a local presence, is HCA well-placed to deliver its range of objectives in the context of ongoing decentralisation?

- How effective a part has HCA played in supporting decentralisation, regeneration and local growth, particularly locally?
- Has HCA worked effectively with DCLG to identify and plan for the likely impact of decentralisation on its objectives and how it delivers its functions, managing risks to delivery and accountability?
- At a local level can more be done to optimise HCA’s delivery model and how it relates to other local and government partners?

Does HCA have a clear and plausible view of the skills and capabilities it requires now and in the future? Does it have those in place or a clear strategy to acquire, develop and retain the right people for the future?

Is HCA delivering its objectives as efficiently as possible and delivering value for money?

- Can the HCA demonstrate that it uses its resources efficiently to deliver outcomes? Does it have clear plans for the future?
- Taking account of plans to share corporate functions across the DCLG Group, are there opportunities to consolidate and reduce administrative costs further without impacting delivery? (within and beyond DCLG Group)
- Is HCA appropriately exploiting commercial opportunities, including charges for its services, in a way that supports delivery?

Are DCLG's and HCA's corporate governance and management arrangements sufficiently robust and transparent, providing assurance about delivery of its objectives?

- Does the HCA's management structure deliver clear and effective decision making?
- Is HCA operating in line with recognised principles of good corporate governance and its governing legislation?
- Is delivery performance and risk appropriately managed to ensure achievement of objectives and accountability?
- Are the respective roles of HCA and DCLG clear and without duplication?
- Is the quality of the relationship between HCA and DCLG good, with sufficient co-operation and oversight to ensure effective delivery of policy objectives and provide assurance of efficiency and value for money?
- Do DCLG and HCA jointly have sufficient and appropriate management information and systems to ensure transparency and rigorous challenge of HCA performance and delivery.

Annex C – Interviewees and respondents to online call for evidence

<i>External interviews</i>	<i>No. organisations interviewed</i>
Housing associations	15
Local authorities	12
Banks / investors / lenders	11
Other public sector orgs	8
House builders	7
Professional / trade bodies	8
Other housing sector orgs / developers	5
Other regulators	3
Local enterprise partnerships	3
Other	3
Total	75
<i>HCA interviews</i>	<i>No. individuals interviewed</i>
Board	7
Executive team	11
Assistant CEO's office	4
Finance and corporate services	6
Programmes	3
HCA-Investments	5
Regulation	4
Land	3
Trade unions	3
Heads of strategy, programmes and performance	5

Heads of area	10
Open staff session Manchester	10
Open staff session London	9
Open staff session video conference	6
Total	86
<i>DCLG interviews</i>	<i>No. individuals interviewed</i>
Housing supply & housing standards directorates	27
FIRST directorate	14
Cities and local growth directorate	6
Other	7
Total	54
<i>Public Call for Evidence</i>	<i>No. of substantive responses</i>
Individuals	31
Housing associations	30
Local authorities	29
Professional / trade bodies	10
SMEs	7
Large businesses/developers	6
Local enterprise partnerships	4
HCA staff members	4
Total	121

Annex D – Summary of online responses

Our online call for evidence ran across the month of March and elicited 121 substantive responses. Respondents included 31 individuals, 30 housing associations, 29 local authorities, 10 professional / trade bodies, 7 SMEs, 6 'large businesses' (housing developers and lenders), 4 LEPs and 4 HCA staff members. We have summarised the responses below.

Are the purpose and priorities of the Homes and Communities Agency clear to you and correct for the future?

Most respondents said that whilst they thought the HCA had a clear purpose they were less clear about the relative priorities. Some local authorities, LEPs and housing associations thought the HCA had lost some focus on local growth and regeneration, in part due to central government direction. Some authorities and professional bodies argued that devolution deals might require the HCA's purpose to be re-considered. Large businesses and developers thought that the role of the agency at local level could be clearer and described a lack of consistency across regions. They very much saw the HCA as the housing delivery arm of government and appreciated its regulatory role. SME's thought that the Agency's purpose was clear but raised concerns about the limitations of some of the HCA schemes.

Several housing associations felt the purpose of the HCA's regulator function was unclear in an environment where there is 'de-regulation' of the sector. Some suggested a potential conflict of interest between the HCA both regulating and safeguarding social housing, and investing in housing associations in order to increase housing supply. Finally, for individuals in particular, there was some confusion about whether the HCA has a tenant-facing role.

How effectively does the Homes and Communities Agency carry out its functions and how could it do so more effectively to meet future challenges?

Respondents largely reported that the HCA was an effective organisation. Some regional disparity in overall effectiveness was noted across functions, linked to an uneven focus on local growth and regeneration. LEPs suggested that the HCA should be more responsive to local growth priorities. Some local authorities called for a more local response to regulation.

The HCA's land disposal process and its number of housing delivery programmes were considered by some to be excessive and inhibiting delivery. Large businesses suggested that better collaboration between the HCA and government and public bodies would lead to operational improvement. The HCA's ATLAS team was praised by a majority of local authorities, and some trade and professional bodies, who valued its impartiality and expertise.

Large and small businesses and housing associations thought that the HCA's investment and programmes functions were found to be effective, with some stating they could be less risk averse. There was some criticism raised about the functions' lengthy processes and excessive information requirements. HCA staff raised concerns about a lack of staff resource, especially in relation to planning expertise.

Most housing associations thought the regulatory function of the HCA was effective, and its on-going importance was emphasised. Several local authorities felt the regulator function could be more robust to increase the number of new housing association developments or to offer more rigorous testing of new providers. A few argued for customised regional models of national programmes. There was some suggestion that the regulator could do more to tailor its approach to reflect the diversity and commerciality of the sector. Some comments favoured further separation of the regulator from the investment function. Some businesses felt the HCA's Affordable Homes Programme could be more effective if registered providers were monitored more closely during bid development to avoid delays.

Professional and trade bodies thought the regulator might come under pressure as the social housing sector changed. It was suggested that the regulator could improve by further adopting different approaches for different sized providers. Some individual respondents raised concerns over housing association tenant protection with reference to reduced focus on consumer regulation.

How effectively does the Homes and Communities Agency work with customers and partners?

Most stakeholders reported a positive interaction with the HCA. Local authorities, professional bodies, LEPS and housing developers highlighted the Agency's role in bringing partners together in an area. Relationships with ATLAS and with HCA-Investments were identified as particularly effective.

Identified areas for improvement included engagement with SMEs, as well as local teams' decision making capabilities. Some housing associations found the regulatory function reactive or outdated, or said they would like to see closer partnership and clearer, consistent communication. Some commented that the regulator's high turnover of staff inhibited the development of effective relationships.

What is your view of how efficient the Homes and Communities Agency is in delivering its objective and can you suggest ways this could improve?

A large proportion of local authorities praised ATLAS' efficiency, and some suggested the function could benefit from increased resource. Local authorities and large developers both noted that the HCA's land function benefits from having an efficient procurement framework. However, several large developers felt there was undue process around de-risking and disposing of land.

There were positive comments from local authorities and housing associations about the local operating area model and its efficiency in translating national grant and investment programmes into a local context. Some local authorities, professional bodies and housing associations suggested that regional teams could be given more power to make decisions quickly, or that councils themselves could assume administration of some of these functions.

A few local authorities, SMEs, LEPS, large developers and several housing associations commented that the HCA could reduce its number of programmes, increase the efficiency of bidding processes, or generally improve the speed and quality of communication with external partners.

Some housing associations felt the regulatory function needed to adapt to the changing sector, to remove unnecessary detail required in reports, and vary resource and approach according to the size of the provider. It was suggested that the regulator could publish periodic value for money self-assessments to enhance credibility, especially if it were to begin charging fees.

HCA staff members raised questions in relation to the level of salaries paid, and suggested that the organisation could do more to share corporate services with DCLG.

What skills does the Homes and Communities Agency require for the future and, from your experience, does it have these?

Some housing associations, staff members, SMEs, professional bodies, and LEPs found praise for skills around development, investment, and planning, although some noted regional inconsistency. A majority of local authorities highly valued the skills of ATLAS. Stakeholders also thought that the skills of the wider land function were appropriate and should be retained or bolstered, but several large developers felt the HCA had lost specialist skills, for example in master planning and land assembly. Others identified a need to increase commercial and design skills to adjust to the shift towards home ownership, Accelerated Construction and the associated market risks. Finally, HCA staff members and a professional body suggested the HCA could benefit from more effective strategic leadership.

A large proportion of housing associations and some professional / trade bodies felt that, while it may have made good progress, the regulatory function should continue to upskill in response to the increasing complexity of the sector, to improve understanding of diverse operating models, market risk and commerciality. A few housing associations, professional bodies and individual tenants felt engagement skills with tenants should be bolstered.

Is there any other feedback on the HCA that you would like to provide to the Review Team?

Many local authorities and a few SMEs reiterated their previous praise of ATLAS at a time when their own resources were constrained. The HCA's impartiality and facilitation of local investment in housing and regeneration was highlighted by individuals, LEPs and councils. Many councils called for increased capability for, or bespoke funding opportunities from, their respective local area teams and better communication with local partners in relation to land and planning.

Large builders and developers emphasised that the volume of available public sector land needed to be increased and that disposal processes should be streamlined, while several housing associations called for a more efficient, commercial operation of the HCA's investment and grant programmes.

For several local authorities and housing associations there was a concern over a possible conflict between the HCA's regulation and investment arms in respect of the social housing sector and, separately, many reiterated their concern for the resource and capability of the regulatory function in an increasingly complex market. It was observed that 25 years of housing associations safely borrowing private finance might allow for a less paternalistic, or more sophisticated regulatory style.

Conversely, a few associations and SMEs felt the regulator had become appropriately robust and responsive in recent years.

Several individual housing association tenants wanted the HCA to enforce either a more effective complaints procedure or better consumer standards.

Annex E – Case for separation of the regulatory function

1. In our assessment of the HCA's regulatory function, we examined the potential conflict of interest that is created by the HCA being a secured creditor of organisations which it regulates. We also identified that current governance arrangements are not best practice. In the event that a regulatory action or judgement was subject to Judicial Review, the HCA Board would be accountable, despite the independence of the Regulatory Committee.
2. When considering options for change, our starting point was the principle that new NDPBs will only be set up as a last resort, when consideration of all other delivery mechanisms have been exhausted. Given the importance of sufficient independence for the regulator, we did not consider in depth any option that would bring it closer to ministers (e.g as part of a government department).

Option 1: Make improvements to the current structure whilst remaining in the HCA

3. We began therefore by exploring the option of retaining the regulator as part of the HCA, with improvements made to the governance structure. It would be possible to provide the regulator greater autonomy over its budget and recruitment, and clearer financial accountability. We also concluded that it could be possible to strengthen the existing 'ethical wall' and protocols between the investment and regulatory functions to reinforce separation.
4. However, the drawbacks of this option were clear. Remaining in the HCA would not remove the risk of a conflict of interest, but, rather, reduce its likelihood of occurrence. This option would also fail to fully resolve challenges with governance arrangements, as HCA's Board would continue to have collective responsibility for HCA's functions, including the regulator.

Option 2: Merge the Regulator with another regulatory body

5. We then explored the option of merging the regulator with another similar regulatory body, since this would not require a new NDPB. This would resolve the potential conflict of interest with HCA-Investments and existing governance issues.
6. This option would have transition costs and would be more disruptive, given the complexities of bringing together organisations and the need to integrate distinct organisations in order to achieve operational savings. Other options provide the opportunity for sharing of corporate services within the 'DCLG Group' without this scale of disruption.
7. Moreover, the objectives of the regulator are distinct from other regulatory bodies, meaning that there would be no functional benefit in terms of the Regulator's effectiveness. Interviews with comparator bodies (such as Charity Commission, Monitor and Housing Ombudsman) revealed a clear lack of synergies with the regulator's functions. Other than the Housing Ombudsman, which is entirely focused on consumer regulation rather than economic regulation, this option would involve the creation of a non-sector specific regulatory body.
8. However, the greatest risk under both merger options is the concern from lenders that the focus on the current model of economic regulation would consequently diminish over time and that the benefits of sector-specificity would be removed. Lenders have been clear about the importance of having a strong, sector-specific regulator, and their confidence in the regulator is a key driver of preferential lending rates into the sector. Given the scale of private investment in the sector (circa £67 billion) and the contribution that registered providers make to housing supply (registered providers built approximately 40% of all new housing in England last year), maintaining the regulator's focus on the sector and economic regulation is critical. We therefore ruled out any merger option due to the significant risks involved.

Option 3: Separate the Regulator as an executive-NDPB

9. Finally, we considered the option of separating the regulator as an executive NDPB, which would also resolve the potential conflict of interest and allow for clear governance. The regulator could retain close links to the HCA and Department, providing the potential for constructive information sharing.
10. We explored the costs involved in setting up a new NDPB. Given the existing quasi-independent status of the regulatory function within the HCA, these costs would be minimal (and considerably lower than transition costs for a merger). Efficiencies would still be found in this model with plans for shared corporate services with the wider 'DCLG Group' retained. Minimal additional costs would result from new staff posts, as existing staff would transfer and only two or three new positions would be required.
11. Finally, we looked at the upheaval and uncertainty that each option would create at a time of change within the sector. Creating a separate regulator would be a constitutional change and it would not alter the regulatory approach or function. It would also reaffirm the Government's commitment to a strong, independent regulator, and align with the current perceptions of the regulator as a separate entity. The quasi-independent regulatory structure within HCA would be relatively easy to separate from the wider Agency, making this option less disruptive than a merger.

Conclusion

12. We concluded that the case for separating the Regulator into a new executive NDPB is the most compelling one, given the significant risks posed by the 'merger' and 'status quo' options. It will both resolve the potential conflict of interest and governance issues, without threatening the Regulator's effectiveness or credibility within the sector.

Annex F – Structural form of the HCA – analysis

This annex outlines the evidence for retaining or changing the organisational form of the HCA's land, development and investment functions. The HCA is currently constituted as an executive NDPB.

In assessing the available evidence we gave due consideration to Cabinet Office guidance on the applicability of commercial models

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/505394/Tailored_Reviews_Guidance_on_Reviews_of_Public_Bodies_010316_FINAL.pdf.

Evidence for retaining current status (executive NDPB)

1. The current model provides an appropriate balance between the HCA's distance from Government (allowing for independent decision making and recruitment of specialist commercial skills, with HCA staff not classed as civil servants) while still retaining links to policy-making and an alignment with government priorities. Its current proximity provides greater opportunity for the HCA to work closely with the Department. Numerous interviewees referenced the ability of the HCA to usefully input into the Department's Spending Review 2015 bid and subsequent discussions. For example, the HCA played a key role in the decision (as announced at Spending Review) to consolidate existing investment funds into a single fund, providing a clearer and streamlined offer to developers and housing associations.
2. A number of the suggested benefits of a more commercial model (such as increased delegation and streamlined governance) could be delivered within the existing structure.
3. The HCA's investment function is not designed to (and is not currently forecast to) make a commercial return. The function operates on the basis of an equally weighted 'double bottom line' where the objective is to balance policy outputs (housing delivery) and financial return by making investments that a commercial lender might not. Government is therefore aiming to invest in markets where banks do lend, but where individual schemes cannot

ordinarily access private finance (eg SMEs; infrastructure required at the start of long-term, large sites; and / or remediation of land). HCA's current status allows the right balance of commercial rigour and policy considerations to be blended in the Agency's approach. Given the high potential for losses it also provides greater proximity to the Department's Accounting Officer. On the contrary, the Green Investment Bank was forecasting a 9% rate of return (per their 14/15 accounts) and the British Business Bank have an overall target rate of return in line with government's cost of capital.

4. Current policy outlines specific output targets for the HCA's land, investment and development programmes, with funding ring-fenced for specific types of interventions. Spinning off any of these functions is likely to require a less prescriptive approach (both in terms of outputs and what money is spent on) for any significant benefits to be realised from a more commercial model.
5. The investment, land and development functions are complementary. This allows the Agency to bring a 'cocktail' of interventions to bear on individual sites rather than arbitrarily separating different ways / elements of getting homes built.
6. There are synergies and economies of scale between these functions as deals often involve the same counterparties (i.e. developers / housing associations). For example land disposal deals often involve deferral of receipts from the developer, which effectively constitutes a lending / credit decision and significantly benefits from the credit risk skills in the investment function. This sharing of skills and services is more efficient than spinning off any of the individual functions. This interrelationship will grow as the HCA becomes a more specialised housing delivery organisation and moves into delivery of Accelerated Construction, which will require a strong focus on risk and commerciality.

More commercial models

7. Certain elements of the land, investment and development functions could be further commercialised (although this would lose the synergies and economies of scale described above). More commercial models would be

likely to provide greater independence from government. This could lead to faster decision making, driven by an ability to make decisions independent of Departmental officials and ministers. We received evidence that best practice in banks is for a 2 month turnaround from a developer submitting an expression of interest to investment decision, whereas the current turnaround time for HCA-I is around 3-6 months (albeit with a recent achievement of 80 days). However, it is difficult to be precise about the contribution of other factors, such as the quality of the HCA's IT systems and higher risk appetite (requiring greater scrutiny) which could contribute to this difference.

8. Greater control over recruitment and administration budgets could allow more skilled staff to be recruited, increasing effectiveness. Greater control over investment in IT could be particularly important given the current need to significantly improve HCA-I's IT systems (which – as outlined in the main report - are not currently fit for purpose for a multi-billion pound investment portfolio).
9. Greater freedom from annual budgets could improve the quality of spend decisions (particularly towards the end of the financial year, although we only received evidence that this *could be*, rather than is, an issue under current arrangements).
10. In line with the approach taken for the Green Investment Bank and the British Business Bank (both set up as limited companies) a central government official could still sit on the Board of the new organisation, providing efficient 'shareholder' oversight alongside greater operational independence and efficiency.

Conclusion

11. Overall there was strong a consensus both within and outside government that the current status of the HCA, as an executive NDPB, remains suitable and relevant. The current status is most suited to the nature of policy intervention (with a higher potential for losses) and an overriding focus on specific outputs (not financial return). This should however be kept under

review, particularly for any elements of the HCA's business that are, or become, clearly profit making and are separable.