Homes & Communities Agency

DELIVERING BETTER VALUE FOR MONEY: REVIEW OF VALUE FOR MONEY SELF-ASSESSMENTS

June 2016

Executive Summary

This report sets out key issues and themes that the regulator has identified from its reviews of providers' Value for Money (VfM) self-assessments. Key messages are as follows:

- Registered providers are required to publish an annual self-assessment of their performance against the VfM Standard.
- A fully transparent self-assessment allows the interested external observer to reach an informed conclusion about where a provider is doing well, and where it could improve, and allows stakeholders to hold the organisation to account.
- The sector has gradually increased the level of transparency of its self-assessments over the past few years, although the responses of individual organisations remain variable.
- Common gaps in providers' self-assessments remain around reporting of comparative costs, the level of detail of how asset performance varies in different uses, and the clarity of targets for future VfM gains.
- The self-assessment will remain a key regulatory tool, and will be one of the key sources of assurance the regulator considers in In-Depth Assessments (IDAs).

1. Introduction

1. Transparency is a key element of the social housing regulator's approach to value for money (VfM). The VfM standard requires all private registered providers of social housing ('providers') to publish an annual self-assessment of their performance against the standard, showing how the organisation has a comprehensive and strategic approach to VfM. These assessments are expected to set out the absolute and comparative cost of running specific services, the returns on the provider's assets and evidence of both past VfM gains and future targets.
2. This self-assessment is not just a key source of assurance for the regulator, but it should be transparent and comprehensible to a range of external stakeholders, such as tenants, local authority partners or lenders. A fully transparent self-assessment allows the interested external observer to reach an informed conclusion about where a provider is doing well, and where it could improve, and allows stakeholders to hold the organisation to account.
3. The regulator now assesses VfM as an integral component of each provider's In-Depth Assessment (IDA), but the self-assessment will remain an important part of the approach to regulating the standard. The self-assessment will be one of the key sources of evidence that the regulator considers in scoping the areas to explore in each IDA, and of course it will remain important that providers continue to set out their approach to delivering VfM to stakeholders other than the regulator.
4. This report sets out key issues and themes that the regulator has identified from its reviews of providers' self-assessments. It provides commentary both on the most recent assessments that providers have published in 2015, and on how the sector's response to the standard has evolved over recent years. The regulator hopes that this commentary will help boards with the preparation of future self-assessments, and that it will give an insight into the kind of issues on which regulators may seek more detailed assurance as part of an IDA.

2. Providers' self-assessments 2012-15

5. Because transparency is such an important part of the VfM Standard, the regulator has made an annual review of the published self-assessments a key part of its regulatory approach over the past few years. The regulator has sought assurance that providers' self-assessments are achieving a sufficient level of transparency to allow stakeholders to reach the informed conclusion that a thorough and comprehensive account would permit.

6. There is no magic formula for preparing a self-assessment; the VfM Standard is underpinned by the regulator's overall co-regulatory approach and was designed to allow a degree of flexibility in reporting in recognition of the diversity across providers. As a result, over the last three years different providers have taken a wide range of different approaches to communicating their approach to VfM to stakeholders. However, it is possible to identify a number of overarching themes.

7. For most providers, self-assessments were prepared for the first time in 2013. Some providers took the opportunity presented by the new standard to set out a clear and transparent narrative that demonstrated how the organisation approached the delivery of VfM, and applied their resources and assets to the delivery of its fundamental objectives. However, across the sector as a whole, the degree of assurance that the regulator was able to take from the first set of self-assessments was mixed. Many providers only gave a very limited level of detail in their self-assessments, and in general some areas of the standard were addressed much more comprehensively than others. Providers generally set out a greater level of quantitative evidence on the cost of running their services than they did on the return on their assets. Anecdotal evidence of past savings was more common than quantified targets for future savings, against which the organisation might be measured in future years. It was more common for providers to highlight areas of comparative strength than to admit areas that needed improvement.

8. The regulator took a proportionate approach to reaching its governance judgements, in recognition of the fact that it was the first year of the new standard, but made clear its expectations that providers should 'raise the bar' in subsequent years. Since then it has become clear that VfM has become an increasing focus for providers and this has been reflected in their self-assessments. Although the transparency and level of detail of individual providers' responses has remained extremely variable, over the subsequent years self-assessments have generally become more comprehensive and detailed, and in the round have provided the regulator with a greater degree of assurance. This has been reflected in a progressively smaller number of governance downgrades linked to a lack of assurance on VfM. In particular, compared to the very limited coverage in the first year of reporting, the sector has begun to provide somewhat clearer evidence on the return on its assets, and how this understanding informs business decisions.

9. The regulator has increasingly seen more detailed evidence in self-assessments, setting out how the financial return on individual properties and groups of properties varies (for example through use of Net Present Value analysis) and how this evidence informs business decisions on investment in planned repairs, or the choice between retention or disposal. The regulator has also noted more frequent commentary on how active asset management is used to generate proceeds for reinvestment in the achievement of the organisation's overall objectives.

10. However, some of the gaps noted in previous years still remain. It is still less common to see clear quantified targets for future savings, and as the regulator has now reviewed several years of each provider's self-assessments it has become evident that it is not always easy to follow a 'golden thread' from one year to another

and clearly identify which past ambitions were subsequently achieved or otherwise. The reporting of information on absolute and relative costs is the one area where, on balance, the self-assessments have become less transparent over time, with some providers failing to provide up to date information on costs in the most recent self-assessments.

11. In cases where the regulator has not been able to take sufficient assurance of compliance with the VfM Standard, and particularly where this has led to a governance downgrade, the regulator has generally requested that the board:

    - undertake a robust review of the factors that resulted in a failure to meet the standard including the key internal controls which are relied upon to deliver transparency to stakeholders;
    - provide a copy of any report / action plan resulting from that review;
    - publish a revised VfM self-assessment (or the missing information) that is transparent to external stakeholders.

3. The 2015 self-assessments

12. The requirement to publish a robust self-assessment which sets out in a way that is transparent and accessible to stakeholders how providers are achieving VfM in delivering their purpose and objectives is no longer a ‘new’ requirement. Providers continue to take different approaches to demonstrate compliance with the VfM Standard, and whilst overall in 2015 the sector’s self-assessments remained significantly more comprehensive than had been the case in earlier years, some self-assessments still did not provide sufficient assurance to the regulator of how the provider was meeting the VfM Standard.
13. Due to the timing of the Summer Budget and the impact of the rent cuts and welfare reform, the regulator took a proportionate view on the evidence of future gains set out in providers’ 2015 self-assessments in recognition that many boards had already signed off the annual self-assessment and did not have time in which to respond to these changes. Given the need for providers to respond to these financial pressures we will continue to seek assurance that providers are making the most efficient use of their resources and assets and have clear plans in place to make on-going improvements to the VfM of their business in future self-assessments.

4. Cost reporting in 2015 value for money self-assessments

14. The VfM Standard requires providers to understand the costs and outcomes of delivering specific services. It is important that providers understand the underlying factors that influence those costs.

15. The self-assessments that provided the regulator with most assurance set out the absolute cost data for a broad range of disaggregated named services. These were clearly defined with historic data used to illustrate trends over time. Where a measurement or definition for a particular cost of service changed from one year to the next, it was clearly explained with supporting narrative. Where comparisons to peer groups were set out they were systematic and transparent.

16. This year an increased number of providers set out the location and the name of providers in the peer group. Information on outputs were also provided to give a measurable assessment of providers' costs against performance, amplified by supporting commentary that allowed stakeholders to reasonably assess the cost of those services. Where areas of weak performance were identified, possible solutions were set out to address issues.

17. Whilst very specialised organisations can find it more difficult to benchmark their cost against peers, we have identified increasing transparency amongst specialist and supported housing providers. Concerted efforts have been made by some providers in setting out the cost of delivering services with some providers setting out long term plans to establish a relevant benchmarking club despite the competitive nature of this business stream.

18. In previous years, reporting on the cost of services provided the regulator with valuable assurance. In 2015, however, an increased number of providers were less transparent in setting out comparable costs. Some providers did not report on up to date cost information. In other cases comparisons to costs were set out against a broad but relevant range of providers and data sources, whilst other providers only benchmarked against the sector as a whole and did not compare themselves against peers with similar organisational characteristics. Other self-assessments included providers who used different datasets from one year's publication to the next with little or no explanation of the change or of what impact the difference in reporting had on the presentation of the underlying information. This made it difficult for stakeholders to assess overall performance and how it had changed over time.

19. It is evident that some providers continue to be selective in setting out the cost of their services despite feedback to the sector in previous years. The lack of focus on key weaknesses can inhibit the adoption of new approaches to improving costs and services, and a failure to acknowledge areas of weakness can therefore make it more likely that they persist.

20. Providers that fail to robustly measure the cost of services or who fail to benchmark themselves against past performance and their peers in a transparent and challenging way, are likely to find it more difficult to assure their boards, and the regulator, that they are fully meeting the requirements of the standard. This is one of the major reasons why the regulator has chosen to refresh its analysis of sector wide variations in operating costs, and will be using this data to inform engagement with individual providers through IDAs.

5. Return on assets in 2015 value for money self-assessments

21. Although for many providers reporting on the return on assets continues to be the most challenging aspect of the standard, there has been somewhat more comprehensive reporting over the past three years. Increasingly providers have demonstrated an understanding of the value of assets in the context of delivering the organisation's own objectives. For example, more providers have reported on the performance of their stock at a granular level (by both business stream and location), and set out how they looked at alternative options for achieving the best return. Consideration was also given as to how this information was used to inform business decisions.

22. In assessing their understanding of asset values an increasing number of providers set out the return on investment over time to inform decisions on maintenance, capital investment or rationale behind decisions on disposal of stock. In most cases the Net Present Value was used. Some providers also set out national and local factors influencing performance (such as demand or deprivation). Increasingly providers are setting out a measurement of social, environmental and local economic returns, although the primary focus remains on financial performance.

23. On the other hand, self-assessments that were less transparent were found to be ambiguous on asset management reporting and provided little detail on how returns varied across the stock base. For those providers with development programmes, the self-assessment often gave an account of the new build homes completed and sold in the year but were often silent on how sales proceeds were re-invested back into affordable and social rented homes or into investment into core service improvements.

24. Some providers only provided limited detail on the factors that influence asset performance and how they vary under alternative uses (for example disposal, conversion or further investment in maintenance and repairs). In addition there was commonly a lack of supporting narrative, demonstrating an understanding of the trade-offs and opportunity costs, in cases where negative returns on investment were reported. In other cases, it was not always clear how option appraisals and investment decisions, for specific properties or groups of properties, are linked to the overall strategic objectives of the organisation.

6. Past and future gains in 2015 value for money self-assessments

25. Reporting of past VfM gains has generally been the one aspect of the standard that has been answered most thoroughly with a greater number of assessments setting out clear, measurable evidence, demonstrating the efficiencies which have been achieved.

26. The self-assessments which provided the greatest assurance were those which reported a clear set of measurable outcomes, with supporting narrative demonstrating how these had been delivered. Past gains were set out not just in the context of overall cost reductions but they also considered the outputs which were being achieved, and provided stakeholders with an informed view on how overall efficiency had improved over time. For example some providers discussed changes in performance metrics such as income collection rates or repair times against changes in service costs whilst others reported on the impact of changes made to IT systems and the efficiencies that they had generated.

27. There was also a clear focus on strategy; some providers choose to provide a breakdown of VfM gains set against the relevant objectives along with supporting narrative setting out how the actions taken would generate greater efficiency. In other cases providers set out how they optimised operational efficiencies by reviewing, for example, overhead costs and clearly set out the savings generated by each business function. This was further broken down to explain whether the savings generated were either ‘one off’ or forecast on a rolling basis.

28. Self-assessments providing less assurance generally reported some measure of VfM gains, however these were often un-quantified with little information to demonstrate how efficiencies were achieved. For example, some providers set out that they maximised the surplus return in the year to generate more homes. This made it difficult for stakeholders to accurately assess the scale of efficiencies achieved in absolute terms. Where providers had reported efficiencies as part of a procurement club, the gains achieved were often reported for the entire club which provided little assurance of the effectiveness of the procurement club for that particular provider.

29. Where providers did report quantified outcomes, there was limited contextual information setting out how these related to delivering objectives. Examples include reporting of a single consolidated figure for all gains achieved in the year with little or no detail on how these had been delivered. Some providers also set out limited information over the timescales in which gains had been generated or did not identify whether they were one-offs or on-going as part of a rolling efficiency programme. In some cases providers had identified planned efficiency initiatives and forecast savings in the previous year’s self-assessment. However, there was no follow up in the subsequent year’s publication to explain whether these had been achieved or not.

30. We have already noted that the regulator took a proportionate view on future gains set out this year in recognition that, at the time that they were working on their self-assessments, most providers were recasting their business plans in the light of the rent cuts announced in the Summer Budget. However it is more important than ever that provider’s demonstrate to their stakeholders how they intend to make on-going improvements on the VfM of their business and transparently report this in all future self-assessments. For future self-assessments, now that the sector has undertaken more work to revise its business plans, the regulator will look for assurance that providers are transparently communicating to external stakeholders how they will deliver future VfM gains.

7. Considering the self-assessment as part of an In-Depth Assessment

31. Since introducing VfM as a part of the IDA process, the regulator has been able to take a more detailed view of a provider's engagement with all aspects of the (VfM) standard, and this has offered greater scope to triangulate the evidence provided publicly in the self-assessment with other sources and engagement with boards and executives. In many cases, this has offered a different perspective than would be evident to a stakeholder considering the self-assessment alone.

32. In general, our engagement in IDAs to date suggests that providers are being more proactive in appraising VfM than the information set out in the self-assessment alone might suggest. In some cases, this has provided the regulator with a greater level of assurance. Most providers considered in IDAs to date have presented sufficient assurance that boards are actively challenging operational performance. Evidence derived from board reports or meetings with the executive and/or board demonstrate for example that asset performance and stock condition is monitored which helps inform business decisions on stock rationalisation programmes and supported ideas for optimising future housing investment.

33. On the other hand, the IDA process has allowed greater scope to explore other issues, such as the extent to which providers are able to fully evidence whether they had considered the trade-offs and opportunity cost of options on the use of resources. The regulator has not always been able to gain full assurance that providers have articulated a comprehensive and strategic approach to delivering VfM in meeting the organisation's purpose. Noteworthy cases include outdated and weak strategic and performance reporting that did not facilitate decision making at either an executive or board level. The evidence borne out from the IDAs to date suggests that these issues would not have been identified from the self-assessment alone.

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