



Homes &
Communities
Agency

Consultation on the Value for Money Standard



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Scope of the consultation

Topic of this consultation	The regulator is proposing to replace its existing Value for Money Standard with a revised and strengthened Standard. The revised Standard would be supported by a new Code of Practice which clarifies and explains the Standard. We are consulting on both documents. Subject to the outcome of this consultation, it is proposed that the revised Standard and new Code of Practice would come into force in April 2018.
Scope of this consultation	This consultation is an opportunity for interested persons and organisations to influence how the Value for Money Standard and associated Code of Practice are developed and implemented. Alongside the publication of this consultation document, the regulator will engage in discussions with stakeholders, including through its sounding board and advisory panels comprising providers and sector advisors respectively.
Geographical scope	These proposals relate to England only.
Impact assessment	Impacts are considered in our business engagement assessment (Annex 3).

Basic information

To	Registered providers, tenants, lenders and other stakeholders who have an interest in the social housing sector
Body responsible for the consultation	Homes and Communities Agency – The Regulator of Social Housing
Duration	This consultation will last for 12 weeks from 27 September 2017. The closing date is 20 December 2017.
Enquiries	For any enquiries about the consultation please contact our Referrals and Regulatory Enquiries Team on 0300 1234 500 (option 2) who will be pleased to help.
How to respond	Please respond online via SurveyMonkey: https://www.surveymonkey.co.uk/r/ValueforMoneyStandard . Please be aware that unless you complete the survey and click on the 'submit' button your response will not be registered as a completed return. However, these incomplete responses will be seen by the regulator and will be reviewed to determine whether they raise any new issues which it would be relevant for the regulator to consider.

If for any reason you are unable to complete a response on Survey Monkey you can email your response to the questions in this consultation to: consultation@hca.gsi.gov.uk.

Please include **“Value for Money Consultation”** as your subject heading. However, please avoid making responses via both SurveyMonkey and by email.

If you are responding in writing or by email, please make it clear which questions you are responding to.

Written responses can be sent to:

Referrals and Regulatory Enquiries
Homes and Communities Agency –The Regulator of Social Housing
1st Floor
The Lateral
8 City Walk
Leeds LS11 9AT

When you reply it would be very useful if you confirm to which questions you are responding, whether you are replying as an individual or submitting an official response on behalf of an organisation. Please include:

- your name,
- your position (if applicable),
- the name of organisation (if applicable),
- an address (including post code),
- an email address, and
- contact telephone number.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant, who else they have consulted in reaching their conclusions when they respond.

We intend to publish an analysis of all formal responses after the closing date of this consultation. This will include anonymised responses and a list of all respondents to the consultation. Individual responses will not be acknowledged unless specifically requested.

Foreword

Making the best use of every pound and every property is the key to delivering more new homes, improvements to the existing housing stock and better services to tenants without placing additional burden on the taxpayer. Doing so also plays a key role in the sector maintaining a positive relationship with a range of stakeholders including tenants, funders and government. Given the lack of shareholders and the limited potential for consumers to exert pressure to maximise efficiency, Parliament has given the regulator explicit value for money objectives.

We have seen improvements in the delivery of value for money within the sector over the last few years. But there is more work to be done – both to offset the impact of rent reductions and to demonstrate the effectiveness of the sector’s response to the value for money challenge. The proposed Value for Money Standard continues to focus on registered providers delivering their objectives and functions efficiently, effectively and economically. It is about both outcomes and costs. Under our co-regulatory approach it remains for providers to consider how best to achieve the outcomes required in the proposed Standard. In doing so, they are expected to consider how they meet all our standards – both economic and consumer.

This consultation proposes a new Value for Money Standard and Code of Practice. It strengthens requirements for board accountability and enhances transparency through a focused, outcome-based approach to measuring and reporting value for money gains. It introduces a requirement to report performance against targets which providers have set for themselves, and to include some sector-wide metrics which we have discussed with the Sector Scorecard Working Group.¹ This will replace the current narrative self-assessment requirements.

We remain committed to a co-regulatory approach, and will use these metrics and organisations’ own targets to consider performance in the round. We will also seek further assurance through In-Depth Assessments.

We welcome as many views as possible from the sector and wider stakeholders to help us deliver a Standard that improves value for money and sector performance across the board.



Julian Ashby
Chair, HCA Regulation Committee

¹ The Sector Scorecard Working Group is a steering group which is piloting a sector scorecard of 15 performance metrics with around 300 providers on a voluntary basis: <http://www.sectorscorecard.org.uk/>

1. Executive summary

- 1.1 The regulator of social housing has a statutory objective to ensure that private registered providers of social housing perform their functions efficiently and economically and that value for money is obtained from public investment in social housing.
- 1.2 Most social housing providers are not-for-profit organisations and are therefore not exposed to shareholder pressure to maximise efficiency. In most parts of the country the demand for social housing greatly exceeds its supply, which means that tenants have limited choice between landlords. This absence of either shareholder or customer pressure on boards means that the role of regulation is important in ensuring that providers operate economically, efficiently and effectively.
- 1.3 The current Value for Money Standard was introduced in 2012. The proposed revised Standard and new Code of Practice (Code) updates and builds on progress made since the introduction of the 2012 Standard. The existing Standard has had a positive impact, encouraging board engagement in driving improvements and supporting a greater level of transparency and accountability across the sector. Building on these improvements, the regulator's objectives for revising the Standard are to:
 - continue to drive improvements in value for money in the sector
 - ensure a strategic approach to delivering value for money is embedded within businesses
 - encourage investment in existing homes and new housing supply and
 - enhance the consistency, comparability and transparency of value for money reporting.
- 1.4 The proposed Standard focuses on outcomes. It places value for money at the heart of the business, requiring registered providers to have an agreed approach to achieving value for money in meeting their strategic objectives.
- 1.5 The proposed Standard and Code are intended to give a clear understanding of how the regulator interprets value for money and the resulting expectations on the sector. Registered providers would need to ensure that they achieve optimal benefit from resources and assets, maximising economy, efficiency and effectiveness in the delivery of their strategic objectives.

- 1.6 The proposed Standard would move the focus of our regulatory approach away from the primarily narrative self-assessment to include focused reporting by providers on targets, including a suite of metrics to be defined, from time to time, by the regulator.
- 1.7 We are already engaged in a discussion with the sector about a possible suite of metrics to help demonstrate what value for money might look like. A [technical note](#)², outlining the scope and data sources for a possible metrics suite, can be found on our website.
- 1.8 We continue with a co-regulatory approach to the regulation of registered providers and we undertake regulation in a way that is proportionate. As an economic standard, the Value for Money Standard applies to all private registered providers. These include for-profit registered providers and those with fewer than 1,000 units.³ Boards of registered providers are responsible for ensuring that they comply with our standards. The regulator's economic standards do not apply to local authorities. Consequently, we do not have a role in the regulation of value for money for local authorities.

² <https://www.gov.uk/government/publications/value-for-money-metrics-technical-note>

³ Registered providers which own fewer than 1,000 social housing units collectively account for less than 5% of the sector's total assets, turnover and debt, and are subject to a different level of regulatory engagement. Our regulatory approach for providers with fewer than 1,000 units is set out in our '[Regulating the Standards](#)' document: <https://www.gov.uk/government/publications/social-housing-regulation-regulating-the-standards>

2. Introduction

- 2.1 Most social housing providers are not-for-profit organisations and are therefore not exposed to shareholder pressure to maximise efficiency. In most parts of the country the demand for social housing greatly exceeds its supply, which means that tenants have limited choice between landlords. This absence of either shareholder or customer pressure on boards means that regulation has an important role in ensuring that providers operate economically, efficiently and effectively.
- 2.2 Parliament has given the regulator two fundamental objectives: an economic regulation objective and a consumer regulation objective.⁴ The regulator, through its Regulation Committee, is accountable to Parliament for the discharge of these fundamental objectives.
- 2.3 The economic regulation objective is:
- to ensure that registered providers of social housing are financially viable and properly managed and perform their functions efficiently and economically
 - to support the provision of social housing sufficient to meet reasonable demands (including by encouraging and promoting private investment in social housing)
 - to ensure that value for money is obtained from public investment in social housing
 - to ensure that an unreasonable burden is not imposed (directly or indirectly) on public funds and
 - to guard against the misuse of public funds.
- 2.4 Overarching these fundamental objectives is the duty placed on the regulator to exercise its functions in a way that minimises interference and is (as far as is possible) proportionate, consistent, transparent and accountable.
- 2.5 Value for money is central to our economic objective and is evident in each of the five elements of that objective. Through our regulation of value for money we seek to gain a comprehensive understanding of private registered providers' delivery of value for money and in doing so, to demonstrate we are meeting our fundamental objectives.

⁴ Our role in relation to consumer regulation is limited by statute. More information on our role and the way in which we carry it out can be found in our publication [Regulating the Standards](#).

- 2.6 The current Value for Money Standard has been in place since 2012. It has been effective in contributing to the improvement of value for money in the sector and a clearer articulation for stakeholders of how each provider is meeting the requirements of the Standard.
- 2.7 Since 2012 the delivery of value for money across the sector has evolved, as have the challenges facing the sector. Our [Sector Risk Profile](#)⁵ sets out the key risks across the sector which includes the management of health and safety obligations, as well as ongoing risks to rental income and sales receipts. Given the rapidly changing environment for the sector, we feel that now is the time to update the requirements on value for money.
- 2.8 There is also increased demand from a range of different stakeholders to improve transparency in the delivery of value for money. The proposed Standard and Code reflect this direction of travel and emphasise the need for transparency in the approach to and outcomes of registered providers' delivery of value for money.
- 2.9 The proposed approach aims to drive more focused reporting, enabling greater transparency and comparability across the sector. The introduction of a standard suite of metrics which will be used to measure value for money will, we believe, go a long way to achieving this.
- 2.10 We want to encourage as much feedback as possible from the sector and wider stakeholders to help us develop a Standard and Code that will strengthen value for money across the sector and encourage continued investment to support the provision of social housing sufficient to meet reasonable demands.

⁵ <https://www.gov.uk/government/collections/sector-risk-profiles>

3. Proposed changes to the Value for Money Standard

Current requirements

- 3.1 The current Value for Money Standard can be found on the [Regulatory Standards page](#)⁶ of our website. The Standard requires that in order to achieve a comprehensive and strategic approach to value for money, registered providers must maintain a robust assessment of the performance of all their assets and resources. Specifically, registered providers are expected to have a full understanding of their costs, the return achieved on their assets, and have in place a strategy for delivering ongoing improvements. This must be demonstrated to stakeholders in an annual self-assessment.

Proposed requirements

- 3.2 It is proposed that the current Value for Money Standard is updated to reflect the environment in which registered providers are now operating. This will ensure that the sector continues to deliver its objectives while achieving maximum value for money. The regulator's objectives for revising the Standard are to:
- continue to drive improvements in value for money in the sector
 - ensure a strategic approach to delivering value for money is embedded within businesses
 - encourage investment in existing homes and new housing supply and
 - enhance the consistency, comparability and transparency of value for money reporting.
- 3.3 The proposals set out below would strengthen requirements for board accountability and enhance transparency through a focused, outcome-based approach to measuring and reporting both value for money gains and areas for improvement. The focus would move away from the regulator's current expectations on narrative reporting in order to increase consistency, comparability and transparency. Registered providers would be expected to set targets against which they will measure their performance in achieving value for money in delivering their strategic objectives. They would also be expected to report against a suite of value for money metrics defined by the regulator. These should be regularly monitored and reported. We believe the proposed changes will meet the regulator's objectives.

⁶ <https://www.gov.uk/government/publications/regulatory-standards>

3.4 We continue to have a co-regulatory approach to the regulation of registered providers and we undertake this in a way that is proportionate. The Value for Money Standard applies to all private registered providers including for-profit registered providers and those with fewer than 1,000 units. Boards of registered providers are responsible for ensuring compliance with our standards.⁷⁸ We are proposing to publish a Code alongside the Standard to elaborate on the content of the Standard, with illustrative examples where appropriate. The Code is not a ‘tick list’ for measuring compliance. Registered providers would be free to meet the requirements of the Standard in the most appropriate way for their business. When assessing compliance, the regulator would have regard to the Code, but it would be the Standard that registered providers would have to ensure they comply with.

Consultation question

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

Required Outcomes (para 1.1 of the Standard and paras 5-13 of the Code)

- a) Registered providers must clearly articulate their strategic objectives.**
- b) Registered providers must have an agreed approach to achieving value for money in meeting these objectives and demonstrate their delivery of value for money to stakeholders.**
- c) Registered providers must, through their strategic objectives, articulate their strategy for delivering homes that meet a range of needs.**
- d) Registered providers must ensure that optimal benefit is derived from resources and assets and optimise economy, efficiency and effectiveness in the delivery of their strategic objectives.**

⁷ The regulator’s economic standards do not apply to local authorities. Consequently, we do not have a role in the regulation of value for money for local authorities.

⁸ Providers which own fewer than 1,000 social housing units collectively account for less than 5% of the sector’s total assets, turnover and debt, and are subject to a different level of regulatory engagement. Our regulatory approach for providers with fewer than 1,000 units is set out in our [Regulating the Standards](#) document.

- 3.5 The proposed Standard and Code set out a requirement to have up-to-date strategic objectives which consider the medium to long term and include measurable targets. Value for money should be a strategic issue, embedded throughout the organisation.
- 3.6 The revised Standard would require registered providers to articulate their strategy for delivering homes that meet a range of needs, reflecting the regulator’s fundamental objective to “support the provision of social housing sufficient to meet reasonable demands” (section 92 Housing and Regeneration Act 2008).
- 3.7 The regulator considers achieving value for money to mean maximising outcomes as well as controlling costs. The outcomes of the revised Standard would require:
- a strong focus on how value for money is to be achieved in meeting the organisation’s objectives
 - that registered providers optimise economy, efficiency and effectiveness in the delivery of their strategic objectives
 - a more outcome-based approach to measuring and reporting value for money gains.
- 3.8 The Code amplifies the Standard, exploring what is meant by economy, efficiency and effectiveness.
- 3.9 The revised Standard would require that registered providers achieve optimal benefit from their resources and assets in the delivery of their strategic objectives. This is explored in further detail in the Code, setting out expectations around how optimal benefit might be achieved and factors that should be considered as part of it, such as their approach to remuneration.

Consultation questions

2. Do you agree that the focus on boards ensuring that delivering value for money is an integral part of running their business would support a more strategic outcome-focused approach?
3. Do you agree that registered providers should seek to maximise the financial return from their resources and assets in so far as that is consistent with the achievement of the organisation’s wider organisational purposes?

Specific expectations A

(para 2.1 of the Standard and paras 14-21 of the Code)

2.1 Registered providers must demonstrate:

- (a) A robust approach to achieving value for money. This must include a robust approach to decision making and a rigorous appraisal of potential options for improving performance.**
- (b) Regular and appropriate consideration by the board of potential value for money gains. This must include full consideration of costs and benefits of alternative commercial, organisational and delivery structures.**
- (c) Consideration of value for money across their whole business including their approach to investment in non-social housing activity. They should include whether this generates returns commensurate to the risk involved and justification where this is not the case.**
- (d) That they have appropriate targets in place for measuring performance in achieving value for money in delivering their strategic objectives, and that they regularly monitor and report their performance against these targets.**

3.10 Boards would be required to have a firm grasp of how they will achieve value for money in meeting their strategic objectives. There should be a clear approach to how value for money will be considered and how decisions are made within the registered provider. The Code explores in more detail some of the factors that boards should consider when undertaking a 'rigorous appraisal' of all potential options for improving performance and delivering their strategic objectives. For example, boards may consider whether specific assets would make a greater contribution to the organisation's objectives through retention in their existing use, conversion to another tenure, or outright disposal. Boards must strike an appropriate balance between investment in existing stock, improvements in services for tenants, and investment in new development. In achieving this boards must ensure that they are complying with all duties required of them, and in particular the requirement (in our Governance and Financial Viability Standard) to comply with all relevant law.

- 3.11 In meeting the requirements of the Standard, registered providers would be expected to consider how they will achieve value for money at both an operational and a strategic level. For example, providers may need to consider whether the existing organisational structure is the right one for maximising value for money gains and achievement of the organisation's strategic objectives. This could lead to consideration of whether these could be better achieved for example within a different group structure or by a merger with another organisation.
- 3.12 The proposed Standard sets out that registered providers should consider their whole business, including their approach to investment in non-social housing activity. Given the sector's increasing diversification, it is more important than ever that registered providers assess the balance between risk and reward and understand the value for money of investments across an increasingly wide range of potential business activities under consideration.
- 3.13 Registered providers would be expected to ensure that their delivery of value for money in meeting their objectives is kept under review, and to continually challenge themselves as an organisation.
- 3.14 Registered providers would be expected to set targets against which they will measure their performance in achieving value for money in delivering their strategic objectives. They would also be expected to report against a suite of value for money metrics defined by the regulator. These should be regularly monitored and reported. A [technical note setting out details of the proposed metrics](#)⁹ can be found on our website. Feedback on the metrics is not part of this consultation. This approach would permit individual providers to report on their own bespoke targets. These would be expected to reflect the individual needs of the organisation and show how the provider is using its resources and assets to the optimum effect to deliver its strategic objectives. The proposed set of standard metrics defined by the regulator is intended to achieve the different, but complementary, objective of providing measures with wide applicability which permit comparison across the sector.
- 3.15 The proposed Standard moves away from the self-assessments of the current Standard, which have been wide ranging in their application, to more focused reporting which will enable greater transparency and comparability across the sector. It is for each registered provider to determine the most appropriate targets for their organisation and to report against those.

⁹ <https://www.gov.uk/government/publications/value-for-money-metrics-technical-note>

Specific expectations B

(para 2.2 of the Standard and paras 22-25 of the Code)

- 2.2 Registered providers must annually publish evidence in the accounts to enable stakeholders to understand the provider's:**
- (a) performance against its own targets and any metrics set out by the regulator, and how that performance compares to peers.**
 - (b) measurable plans to address any areas of underperformance.**

3.16 The sector has gone a long way in improving transparency in achieving value for money and this proposed Standard builds on that. It is important that registered providers are transparent to their stakeholders in how they are performing in respect of achieving value for money in meeting their strategic objectives. The proposed Standard would require a more focused annual publication of evidence of how they are performing and plans for addressing any areas of underperformance. It would be for each registered provider to consider the best way to achieve the requirements of the Standard for their business. Reporting would be required as part of the annual accounts.

Consultation questions

- 4. Do you agree that boards should consider the full range of operational and strategic issues in delivering value for money?
- 5. Do you think the Code helps registered providers understand how compliance with the requirement to 'undertake a rigorous appraisal of potential options for improving performance' could be achieved?
- 6. Do you agree with the move away from wide-ranging narrative self-assessments in the current Standard towards a specific metrics – and targets-based approach?
- 7. Do you agree that a targets-based approach in measuring performance will help to deliver value for money?
- 8. Do you agree that the requirement to report on value for money in the accounts would increase board focus on value for money as well as drive transparency, consistency and comparability for stakeholders?

Code of Practice

- 3.17 As set out in paragraph 3.5 above, we propose to introduce a Code to elaborate on the content of the Standard. The intention is for the Code to aid understanding of how compliance with the Standard could be achieved, not to be used as a set of requirements that registered providers would have to meet. It would remain for registered providers to consider how best to meet the requirements in the Standard for their own businesses.

Consultation question

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

Analysis of equality

- 3.18 An assessment of the impacts of these changes is provided in our draft business engagement assessment (Annex 3). This includes consideration of any implications of the proposals in relation to equality and diversity.
- 3.19 Equality-related impacts have been considered in the design of both the Standard and Code. Given the nature of the requirements on value for money we have concluded that there are no equality-related impacts directly associated with the proposed changes. The change is purely in the approach to registered providers' reporting on their performance in relation to value for money. As such it has no direct impact on any protected characteristics¹⁰. The draft business engagement assessment outlines that we acknowledge that registered providers' decisions in relation to value for money may in themselves have a disproportionate impact on people with protected characteristics but the regulator's standard does not stipulate the business decisions that a registered provider should take in delivering value for money. This is a matter for each registered provider and its board and as part of its decision making it is expected to understand the impact on its tenants including those with protected characteristics. It is the responsibility of providers to ensure that they understand and address any impact on equality when working to deliver value for money under the new Standard. It is envisaged that the revised Standard will support the delivery of more efficient and effective services to all tenants.

¹⁰ The Equalities Act 2010 sets out protected characteristics. They include age, disability, gender reassignment, race, religion or belief, sex, sexual orientation, marriage and civil partnership, and pregnancy and maternity

3.20 If through its regulation of value for money the regulator becomes aware of a provider not giving equality and diversity due regard, this may be looked at and addressed under the Governance and Financial Viability Standard.

3.21 The regulator is committed to a full consideration of potential impacts, and comments on the draft business engagement assessment are particularly welcome. A final business engagement assessment including any issues in relation to equality which are raised as part of the consultation will be published following the conclusion of this consultation.

Consultation question

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

4. About this consultation

- 4.1 This consultation document and consultation process have been developed to adhere to the Consultation Principles issued by the Cabinet Office.
- 4.2 Representative groups are asked to give a summary of the people and organisations they represent, and where relevant, who else they have consulted in reaching their conclusions, when they respond.
- 4.3 Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004).
- 4.4 If you want the information you provide to be treated as confidential, please be aware that, under the Freedom of Information Act, there is a statutory Code of Practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the regulator.
- 4.5 The regulator will process your personal data in accordance with the Data Protection Act and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.
- 4.6 Individual responses will not be acknowledged unless specifically requested.
- 4.7 Thank you for taking the time to read this document and respond. Your opinions are valuable to us.

Annex 1: Value for Money Standard 2018

1 Required outcomes

1.1 Registered providers must:

- a) clearly articulate their strategic objectives
- b) have an approach agreed by their board to achieving value for money in meeting these objectives and demonstrate their delivery of value for money to stakeholders
- c) through their strategic objectives, articulate their strategy for delivering homes that meet a range of needs
- d) ensure that optimal benefit is derived from resources and assets and optimise economy, efficiency and effectiveness in the delivery of their strategic objectives.

2 Specific expectations

2.1 Registered providers must demonstrate:

- a) a robust approach to achieving value for money – this must include a robust approach to decision making and a rigorous appraisal of potential options for improving performance
- b) regular and appropriate consideration by the board of potential value for money gains – this must include full consideration of costs and benefits of alternative commercial, organisational and delivery structures
- c) consideration of value for money across their whole business including their approach to investment in non-social housing activity – they should include whether this generates returns commensurate to the risk involved and justification where this is not the case
- d) that they have appropriate targets in place for measuring performance in achieving value for money in delivering their strategic objectives, and that they regularly monitor and report their performance against these targets.

2.2 Registered providers must annually publish evidence in the statutory accounts to enable stakeholders to understand the provider's:

- a) performance against its own value for money targets and any metrics set out by the regulator, and how that performance compares to peers
- b) measurable plans to address any areas of underperformance, including clearly stating any areas where improvements would not be appropriate and the rationale for this.

Annex 2: Value for Money Code of Practice

The role of the Code of Practice

1. This Code of Practice (the Code) is designed to amplify the requirements in the Value for Money Standard (the Standard). It is designed to help registered providers ¹¹ understand what the regulator is looking for when seeking assurance on compliance with the Standard. The Code clarifies the Standard by explaining and elaborating on the content, with illustrative examples where necessary. Registered providers must have regard to the Code when assessing their compliance against the Standard. In considering whether the Standard has been met, the regulator will have regard to the Code. It is therefore important that registered providers are familiar with its content. However, it is the Standard rather than the Code that the regulator will enforce against.
2. The regulator adopts a co-regulatory approach. It has statutory objectives in relation to economic and consumer matters and sets standards in both areas. Responsibility lies with the boards¹² of registered providers to ensure that they meet the regulator's standards. In light of our co-regulatory approach, these standards only prescribe outcomes and expectations. Providers are free to choose how they will achieve those outcomes and expectations.
3. This Code explains those outcomes and expectations set out in the Value for Money Standard in more detail. It does not elaborate on all outcomes and expectations set out in the Standard; it only provides further explanation where the regulator believes that this is required. Commentary within the Code does not indicate a greater importance to that element of the Standard. Registered providers need to comply with the entire Standard.
4. Examples of how registered providers might achieve compliance are not intended to be exhaustive nor prescriptive. Registered providers are free to comply with the requirements of the Standard in any way that they consider appropriate. If there are any conflicts between the Code and the Standard, the Standard takes precedence.

¹¹ In the context of this document the term "registered providers" refers to private registered providers

¹² Throughout this Code references to registered providers' 'boards' should, where a registered provider does not have a board, be taken to include an equivalent management body as appropriate.

Required outcomes

Paragraph 1.1 a– d) – Achieving value for money in meeting strategic objectives

5. Registered providers must ensure that clear, up-to-date strategic objectives are in place. These objectives must:
 - deal with the medium to long-term future of the organisation
 - include measurable targets based on outcomes, and
 - be demonstrably linked to the aims and purpose of the organisation.
6. In articulating their strategic objectives, registered providers may choose to embed value for money within those objectives, or may alternatively have a standalone value for money strategy. Whichever approach is taken, a comprehensive approach to value for money needs to be embedded throughout the business including at the level of individual business streams.
7. Providers' objectives must articulate their strategy for delivering homes that meet a range of needs. This might, for example, include their plans for new development to meet unmet housing need in particular localities, or investment in the existing stock to sustain its quality and/or better meet the needs of particular client groups.
8. Achieving value for money should include achieving economy, efficiency and effectiveness in all areas of activity, taking into account the outputs achieved as well as input costs. Economy, efficiency and effectiveness are defined as follows:
 - **Economy:** minimising the cost of resources used while having regard to quality
 - **Efficiency:** the relationship between the output from goods or services and the resources to produce them
 - **Effectiveness:** the extent to which objectives are achieved and the relationship between intended and actual impacts.
9. Registered providers must ensure that they achieve optimum economy, efficiency and effectiveness in delivery of their strategic objectives recognising the need to balance factors such as available resources, risks and other duties the provider must comply with (such as health and safety requirements) to ensure long-term financial viability.

10. In terms of deriving “optimal benefit” from resources and assets, registered providers should take a measured and proportionate approach, taking into account the requirements of all the standards, in particular the Governance and Financial Viability Standard.
11. Further detail on expectations for delivering optimal benefit can be found in paragraph 15 of the Code.
12. Registered providers must ensure that they have sought to maximise the financial return from their assets and activities in so far as that is consistent with achievement of the organisation’s wider organisational purpose and strategic objectives. Social housing businesses will generally receive a lower-than-market return on social housing assets as renting properties below the market rate is an integral part of their social purpose. However, where a provider has had to accept lower financial returns in pursuit of their purpose, the rationale for this should be clearly articulated and justified.
13. Registered providers must also be able to demonstrate that they have a full understanding of the return they generate from their assets compared to the costs of maintaining those assets. Registered providers should be able to demonstrate how this return varies across their asset base, e.g. according to stock type or geographical location. Where assets are not apparently achieving the maximum expected return, registered providers should be able to articulate the rationale for continued support of the asset. This may be, for example, that historical covenants are in place, which restrict the sale of properties even where there are high maintenance costs.

Specific expectations

Paragraph 2.1 – Approach

14. Registered providers must ensure their approach to the management of resources and assets is strategic, comprehensive, and clearly linked to achieving strategic objectives. This includes assurance around the robustness of decision making in this area.
15. Registered providers must ensure they meet their organisational purposes and objectives (including, where relevant, charitable objectives) when considering the use of resources or assets. Resources and assets should be considered in the widest sense, for example it must not be limited to use of physical assets and resources, but should include investments into particular services or business streams. It should also include consideration of whether their approach to remuneration and employment costs represent optimal use of resources.

16. An effective approach to value for money requires consideration and action to be taken at both:
 - an operational level – maximising value for money in the activities they carry out
 - a strategic level – ensuring that value for money is considered and addressed in all strategic decisions.
17. Registered providers must ensure that they have an understanding of absolute costs, how these costs compare to other organisations, and how they have changed over time. Registered providers should understand what is driving their costs and make sure that they are getting the desired quality at the lowest price.
18. Robust decision making must include a ‘rigorous appraisal’ of all potential options for improving performance and may include (but is not limited to):
 - cost inputs versus outputs achieved
 - opportunity cost of using assets and resources in their current function
 - comparison against potential alternatives
 - evaluation of implications for delivery of objectives.
19. In some instances the existing commercial, organisational or delivery structures within a registered provider may not be the best vehicle to enable the organisation to achieve its organisational objectives. It is incumbent on boards to actively consider the opportunity costs of their current structures compared to a range of alternatives, and the implications for delivery of objectives and maximising value for money.
20. This could include the potential benefits and limitations of considerations such as (but is not limited to):
 - corporate structure
 - procurement
 - diversification / divestment of business streams
 - investment in non-social housing activity including that undertaken in any unregistered subsidiary
 - partnership arrangements
 - standalone business versus merging with another provider, and
 - geographic areas of operation.

21. Where investment in non-social housing activity is being undertaken either by the registered provider or through an unregistered subsidiary, this activity should generate returns commensurate to the risks involved. Non-social housing-related activity may bring with it more inherent risk than more traditional social housing activity. Where this is the case, registered providers should fully understand and balance the risks associated with the activity versus the rewards they expect to receive.

Paragraph 2.2 – Reporting

22. Transparency and accountability help drive improvement in value for money. Transparency requires appropriate performance monitoring and reporting systems, encompassing all elements of the value chain and the economy, efficiency and effectiveness of boards' actions and decisions. Where boards find that expected levels of delivery are not being achieved, they should ensure that they have the systems and skills in place to be able to challenge executives. They should also ensure that robust plans are in place for improvement, or where it would not be appropriate to undertake improvements this should be clearly stated and the rationale for the decision set out.
23. Registered providers must ensure that the reporting undertaken meets the requirements of the Standard, including the requirement to report against the metrics defined by the regulator and to report value for money at a group level, taking into account all areas of the organisational structure. Registered providers should also report on different activities and types of assets that are appropriate to their business priorities. Registered providers who undertake a range of different activities are expected to report on those activities separately to their social housing activity. They should also consider their actual performance, previous year's performance, five-year forecast, and targets for five-year forecasts in relation to strategic objectives.
24. Registered providers are also free to report any additional measurements that they consider would aid understanding of their performance (e.g. costs and outcomes for supported housing and other specialist areas of the business). Explanation of underlying factors influencing performance must be factual and concise and easily identifiable.
25. Registered providers are required to publish reporting on the above in their statutory accounts in a way that is clear, concise and appropriate to their stakeholders.

Legal status of the Code

26. This Code is issued by the Homes and Communities Agency – the regulator of social housing, under section 195(1) of the Housing and Regeneration Act 2008 (as amended) (the Act). It relates to the Value for Money Standard (the Standard) set by the regulator under section 194 of the Act.
27. Section 195(2) of the Act provides that the regulator may have regard to the Code when considering whether the Standard has been met.
28. The Code applies to all registered providers which are subject to the Standard (i.e. private registered providers and not local authority providers of social housing).

Annex 3: Business Engagement Assessment

Business Engagement Assessment	
Title of proposal	Statutory consultation on Changes to the Value for Money Standard
Lead regulator	<i>Homes and Communities Agency – the regulator of social housing</i>
Contact for enquiries	<i>Referrals and Regulatory Enquiries team</i> <i>0300 1234 500 (option 2)</i> consultation@hca.gsi.gov.uk

Date of assessment	<i>Sept 2017</i>	Stage of assessment	<i>Final</i>
Net cost to business (EANCB)		Commencement date	<i>April 2018</i>
Which area of the UK will be affected by the change(s)?	<i>England</i>	Price and present value base years	
Does this include implementation of Red Tape Challenge commitments?	<i>No</i>	Is this directly applicable EU or other international legislation?	<i>No</i>

Brief outline of proposed change

The regulator proposes to revise its Value for Money Standard and supplement this with a Code of Practice to aid understanding about how the requirements in the Standard could be met.

Why is the change proposed? Evidence of the current problem

The social housing sector has and continues to undergo significant changes. The sector has diversified and become less reliant on grant. It is finding new and innovative ways of delivering new housing supply. This brings with it a new and more diverse range of risks. To help mitigate these risks and to ensure that the sector can continue to deliver new housing supply there has been an increased focus across the sector, and from government, on value for money.

The regulator has a range of statutory objectives. The Housing and Regeneration Act 2008 (HRA 2008) states that the regulator must perform its functions with a view to achieving (as far as is possible), the economic regulation objective and the consumer regulation objective. It is to do so in a way that minimises interference and (as far as is possible) is proportionate, consistent, transparent and accountable.

This consultation focuses on meeting both the regulator's objectives but with specific reference to the economic objective.

This is set out below:

- to ensure that registered providers of social housing are financially viable, properly managed, and perform their functions efficiently and economically
- to support the provision of social housing sufficient to meet reasonable demands (including by encouraging and promoting private investment in social housing)
- to ensure that value for money is obtained from public investment in social housing
- to ensure that an unreasonable burden is not imposed (directly or indirectly) on public funds and
- to guard against the misuse of public funds.

Having a robust and transparent approach to the regulation of value for money is central to ensuring that the regulator can meet its fundamental objectives.

While our current Value for Money Standard and approach have been successful in driving both transparency and improvement across the sector we have concluded that they require updating to meet the needs of a rapidly changing sector.

The focus of the changes is to:

- continue to drive improvements in value for money in the sector
- ensure a strategic approach to delivering value for money is embedded within businesses
- encourage future investment in housing
- enhance the consistency, comparability and transparency of value for money reporting.

The statutory consultation document sets out the regulator's proposals for a new approach to value for money via a new Standard and supporting Code of Practice.

Which types of businesses will be affected? How many are affected?

The new Standard proposes a more embedded approach to integrating value for money into the performance management frameworks that providers have already established. The focus is on embedding value for money into the strategic objectives of the organisation and hence making this part of the 'day job' of the providers.

There is also a proposal to introduce a set of metrics by which the regulator can measure value for money. While these are new in the value for money context they are all metrics based on data that providers currently submit to the regulator. It is also true that for much of the sector, providers already monitor and measure the majority of these metrics in the course of their work.

All private registered providers would be affected by the new approach to value for money, although the impact on large providers (over 1000 units) will be much greater. As at August 2017, there were 1,560 private registered providers registered with the social housing regulator. Of those, 1,079 were non-profit-making registered providers with less than 1,000 units and 38 were profit-making registered providers.

These proposed changes do not impact on local authority registered providers as currently our economic standards (which include value for money) do not apply to local authority registered providers.

It is difficult to quantify the extent to which registered providers would be affected by the changes as this will be different for each individual business. Overall, it is anticipated that the new requirements would not amount to any significant extra burden or cost. We acknowledge that there might be additional cost to providers due to changes to the International Standard on Auditing (UK) 720 “The Auditor’s Responsibilities Relating to Other Information” affecting accounting periods commencing on or after 17 June 2016; however this is a change that has happened independent of this consultation.

How will the change impact these businesses?

As explained above, the proposed new requirements are less about creating new systems and processes for value for money and instead focus on mainstreaming the value for money requirements within existing performance management frameworks of providers.

We acknowledge that this will be a change for some providers but for many this will already be the case around their work on value for money.

Removing the requirement to submit a narrative-focused value for money self-assessment would lead to a net reduction in the regulatory burden placed on providers, as the new reporting requirement will be more focused. The new reporting requirements would enable greater transparency and comparability across the sector.

The new requirement to develop targets around value for money will have an impact on those providers who do not currently set such targets. Many providers will already set targets by which they measure value for money and hence the impact is not expected to be that high across the sector as a whole.

Clearly those providers that do not currently use targets to drive performance in value for money will face a greater impact. However this is felt to be a proportionate requirement as targets play an important role in the performance management of an organisation.

Impact on small businesses

The majority of the sector comprises of small providers/businesses. We have addressed this in our consultation by minimising the impact on this section of providers in light of our duty to minimise interference and proportionality.

The consultation document proposes to continue our existing regulatory approach to regulating smaller providers of less than 1,000 units. Registered providers which own fewer than a thousand social housing units collectively account for less than 5% of the sector's total assets, turnover and debt. As a result the regulator considers that a different level of regulatory engagement is more proportionate. Our full approach to regulating small providers is set out in our [Regulating the Standards](#)¹³ document.

Equality and diversity

The regulator is mindful of its statutory equality duties under section 149 of the Equality Act 2010. The Homes and Communities Agency has published its equalities objectives that we are working to deliver. These include work to ensure that we pay due regard to equality when undertaking our regulatory functions.

The regulator will take a proportionate approach to its equality obligations and has at this stage identified no specific equalities implications of the changes proposed in this consultation. The regulator's changes to the Value for Money Standard and Code of Practice constitute primarily a change to the way providers report on how they are tackling value for money rather than being directive about the individual measures providers choose to take. In this as in all areas, the regulator's co-regulatory approach means that these decisions are for the provider to take. As a result of this a full equality analysis has not been completed on the proposed changes but equality will continue to be considered during future development of the proposals.

Although there are no apparent impacts arising from the proposals we do acknowledge that providers' pursuit of value for money does have the potential to disproportionately affect people with protected characteristics. Where difficult decisions need to be made by providers they are under their own equality duties to ensure that their decisions support the requirements of the Equality Act 2010 and meet all aspects of the General Duty.

¹³ <https://www.gov.uk/government/publications/social-housing-regulation-regulating-the-standards>

Due to this it is incumbent on providers to ensure that they understand and address any impact on equality when working to deliver value for money under the new Standard. If through its regulation of value for money the regulator becomes aware of a provider not giving equality and diversity due regard, this may be looked at and addressed under the Governance and Financial Viability Standard.

The regulator will review its consideration of the impacts on equality and diversity following the consultation and the analysis of stakeholder feedback to the consultation. Should any equalities-related issues arise following the consultation, the regulator will ensure that these are taken into account when finalising the proposals.

If it becomes apparent that a full equality analysis is needed then this will be undertaken and published with the Decision Statement.

Annex 4: Statutory consultees

Section 196 HRA 2008

- (1) Before setting standards, or issuing, revising or withdrawing a Code of Practice, the regulator shall consult the following or ensure that they have been consulted:
- (a) One or more bodies appearing to it to represent the interests of registered providers
 - (b) One or more bodies appearing to it to represent the interests of secured creditors of registered providers
 - (c) Any body for the time being nominated under section 278A
 - (d) One or more other bodies appearing to it to represent the interests of tenants of social housing
 - (e) One or more bodies appearing to it to represent the interests of local housing authorities
 - (f) The Greater London Authority
 - (h) The Secretary of State.
- (2) Before setting a Standard which would apply to charities, or issuing, revising or withdrawing a Code of Practice which applies or would apply to charities, the regulator must consult the Charity Commission.