



THE REGULATOR OF SOCIAL HOUSING

Decision Instrument

Instrument number: 16

Title of Instrument: **Decision to revise the Value for Money Standard and issue an associated Code of Practice**

Introduction

- A Regulation of social housing in England under the Housing and Regeneration Act 2008 ('the Act') is the responsibility of the Regulation Committee (the regulator), a statutory committee of the Homes and Communities Agency (HCA). The organisation refers to itself as the Regulator of Social Housing in undertaking the functions of the Regulation committee.
- B The regulator's current Value for Money Standard came into force on 1 April 2012.
- C The Regulator has consulted on replacing its Value for Money Standard and on introducing a new Value for Money Code of Practice. The purpose of this document is to set out the decision of the regulator made following the conclusion of that consultation.

Decision

Date decision made: 27 February 2018

Decision made by: Regulation Committee

1	<p>In exercise of its power under section 194 of the Act to set Standards relating to economic matters with which registered providers of social housing are required to comply, the regulator has decided to replace its Value for Money Standard.</p> <p>In exercise of its power under section 195 of the Act to issue a code of practice, the regulator has decided to issue a Code of Practice which relates to and amplifies the Value for Money Standard.</p>
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	<p>In compliance with the requirements under s196 of the Act, these decisions have been taken following consultation.</p> <p>The revised Standard and the Code of Practice are as set out in Annex 1 and Annex 2 respectively.</p> <p>The revisions referred to in this Decision Instrument supersede the following:</p> <ul style="list-style-type: none">• The Value for Money Standard which took effect from April 2012.
2	This decision comes into force on 1 April 2018.

Authentication

Name: Simon Dow

Position: Interim Chair, Regulation Committee, Homes and Communities Agency

Signature:

A handwritten signature in black ink, appearing to read 'Simon Dow', written over a faint circular watermark or background.

Schedule 1 to Decision Instrument 16

Value for Money Standard 2018 (to take effect 1 April 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 and where they invest in non-social housing activity, they should consider 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.

Value for Money Code of Practice (to take effect 1 April 2018)

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 providers¹ 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 boards² 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.

¹ In the context of this document the term "registered providers" refers to private registered providers

² 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.

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.

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 that 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 optimise 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. They also may at times opt not to receive maximum return from an asset, instead taking the decision to accept a lower return in furtherance of their social objectives. 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 optimum 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 that 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 – optimising 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, future forecasts and targets against 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.
26. Registered providers are, in addition to the reporting in the annual accounts, free to report outside of these accounts in any way they see fit if they consider this increases transparency with stakeholders.

Legal status of the Code

27. 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.
28. Section 195(2) of the Act provides that the regulator may have regard to the Code when considering whether the Standard has been met.
29. The Code applies to all registered providers that are subject to the Standard (i.e. private registered providers and not local authority providers of social housing).