CIH response to the HCA Consultation on the Value for Money Standard

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Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple – to provide housing professionals and their organisations with the advice, support and knowledge they need to be brilliant. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing sector. We have a diverse membership of people who work in both the public and private sectors, in 20 countries on five continents across the world.

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Background

The regulator (HCA) is proposing to replace its existing Value for Money Standard. The revised Standard will be supported by a new Code of Practice which clarifies and explains it. This response from CIH covers both documents and also makes reference to an HCA technical paper on the metrics for measuring VfM.

Overall approach

CIH endorses the emphasis on value for money. It is also appropriate for the regulator to focus on financial metrics such as gearing and operating margins. We recognise too the importance of focusing on social housing delivery, and that measures of delivery are more easily standardised than other measures of value generated by the organisation.

Nevertheless we feel that the regulator should also give emphasis to a range of other factors that contribute to VfM. The ones we identify are: tenant and resident consultation and engagement, the affordability of housing delivered, impact on homelessness and the wider social value created by the organisation. We also believe that the regulator should have a nuanced approach to organisational change as a route to delivering value for money.

Our overall message on VfM is that as well as recognising the importance of cost management and investing in building as many new homes as possible, it also needs to explicitly recognise that there are wider objectives for the sector that can easily lose their importance under the pressures to build and to demonstrate a narrow view of efficiency. The strong focus on financial metrics can detract from measuring the wider social value provided by the sector, including its beneficial effects on other public services.

The regulator must therefore ask whether the proposed metrics will help it understand whether good performance against them is actually delivering good services on the ground. Will the metrics in isolation be digested and used as an assessment of the sector, and will it therefore be judged on a narrower definition of 'value' than the sector offers in practice, and indeed is part of the sector's purpose?

The rest of this paper focuses on these wider issues, but there are also some presentational and procedural issues raised by the consultation:

- Inclusion in statutory accounts has audit implications and we are not sure this is the right place for the breadth of information required.

- For example, an annual VfM statement could be published on websites or as part of annual reports. Indeed it could be argued that a VfM statement is more important to tenants and residents than the annual report or accounts by themselves.
- A number of issues will impact on the direct comparability of the metrics between providers, for example tenure mix, geographic location and internal accounting policies. This will need to be borne in mind when making sector-wide comparisons.

Tenant and resident consultation and engagement

It is likely (and appropriate) that in the wake of the Grenfell Tower fire there will be renewed concern about whether providers take sufficient account of tenant and resident views, not only those on broad strategy but also those on specific areas of service provision (e.g. in the Grenfell case, fire safety). While this aspect is covered in the HCA Tenant Involvement and Empowerment Standard, we note that engagement is not mentioned in the VfM metrics and that services to tenants and residents receive few mentions in the main consultation paper.

CIH would argue that a provider that is not focussed on tenant and resident needs and aspirations cannot demonstrate value for money in their operations. Arguably, VfM is fundamentally directed at the customer – current tenants and residents, potential tenants and residents and the wider communities in which providers work – and that judging VfM from this perspective is a key part of VfM. Tenants and residents will undoubtedly have views on service costs and how the quality of services should be assessed.

An important question is how the regulatory framework will ensure that providers are adequately taking tenants' and residents' views into account, and are actively demonstrating VfM to them (as well as to the board, the regulator, etc.)? It can be debated whether this is best taken into account in the VfM standard or by another part of the regulatory framework.

One possible route, given that the metrics have been set, is to indicate that while there is no metric for tenant and resident engagement the regulator expects providers to have one or more metrics that relate to it. This would give guidance but not in a prescriptive form, allowing providers to specify their own metrics for this, but ensuring that they do so. Providers should, of course, involve tenants and residents closely in setting such metrics.

Affordability

The code says that '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'. This gives the impression that accepting lower returns is undesirable, whereas of course a lower than market-level return from rents is a positive outcome if the objective is affordability.

CIH is concerned that affordability is given insufficient emphasis, as it is a fundamental objective for associations and a key test of one of the 'three Es': effectiveness. For example, it will be important for an association that deliberately keeps rent at affordable levels, subsidising the cost from its balance sheet, to be able to show this as a positive outcome. Equally, it will be important that an association financing new development in part from its own resources is able to show that this is not at the expense of the affordability of rents to the target groups that it typically houses.

An important point here is that VfM should not be narrowly confined to the housing provider, but take into account wider costs (and benefits). For example, high rents may superficially demonstrate better VfM on a narrow definition, but not if the impact on welfare benefit costs were also to be factored in. Reports by the NFA and by Savills, among others, have demonstrated the VfM to be obtained by building at lower, social rents.

In addition, providers should be aware of the effects of rent levels on the residual incomes of tenants and residents, since high rents that squeeze residual incomes cannot be said to provide VfM in any wider sense.

We address the affordability issue in our recent report Building Bridges – A guide to better partnership working between local authorities and housing associations. We call on HAs to work with each other and with LAs to develop *Local Housing Affordability Frameworks*. Whether or not this is the mechanism used to achieve genuine affordability, the issue is a key one to be reflected in VfM assessment. Importantly, there should be no implicit disincentive in the VfM framework to associations embracing affordability.

We appreciate that affordability is a wider issue than can be covered fully by the VfM Standard, and in particular that it is not adequately covered in the current Rent Standard. We consider that the HCA should review the Rent Standard, too, to ensure that - when setting rents - providers make judgements about affordability based on local data and the impact on welfare benefit costs, rather than relying simply on the national formulae set out in the current Standard.

As a minimum (as with tenant and resident engagement), providers ought to show how they are dealing with affordability in the VfM metrics that they devise themselves.

However, this is really a sector-wide task: after all, government support for the sector through grant is aimed at creating a significant volume of output at sub-market rents. Therefore the sector as a whole (and the regulator) should be able to demonstrate whether or not it is achieving VfM in terms of lower rents and what the benefits are to government and to low-income households of doing so.

Impact on homelessness

CIH believes that housing associations also deliver wider VfM through the effectiveness of the contribution that they make to alleviating the plight of homeless people and therefore reducing the burden on local government, the NHS, the police and other public services. As with the previous point about providers' impact on tenant incomes and welfare benefits, the costs of *not* engaging with homelessness provision are borne by these other public services. This is likely to mean provision of support services for homeless households as well as providing dwellings.

This is an issue which applies across the board to housing providers, not solely to those who choose to focus on homelessness. Metrics/targets could be developed to measure performance on alleviating homelessness. For instance, housing associations could report on the number of homeless people/families housed or supported each year. On the basis that homeless people are unlikely to be able to afford to rent in the private rented sector or to purchase a property, the number of new sub-market rent homes delivered each year could be measured. Associations could demonstrate how they are avoiding evictions (and therefore avoiding new homelessness) through debt advice or other support to their tenants and residents.

Wider social value

CIH considers that measuring social value should be an integral part of VfM, since social landlords are not merely housing providers but important agencies in the communities where they work. Many are charities with objectives which include working 'for the benefit of the community', which is what aiming for wider social value is intended to achieve and measure.

Understanding and valuing social impact is therefore as important a part of showing VfM as creating new homes or investing in current stock. For example, a landlord that focuses on keeping people out of prison or providing cost effective, better alternatives to long-stay hospital care would be meeting government objectives and should be able to show VfM accordingly.

CIH sets out the arguments in detail in its report on New Approaches to Delivering Social Value. Of course, this is an area in which it would be impossible to specify national metrics and indeed to do so would be contrary to the principles of social value, but nevertheless providers should be strongly encouraged to use their own metrics to show how they add to social value in the communities where they work. There is ample guidance from the CIH and other bodies, both on creating social value and on demonstrating social impacts.

There is a particular case to provide opportunities to smaller landlords which can demonstrate their social impact but which may not have as much capacity to develop housing or may have higher costs per unit or lower return on capital. Again, it is an issue which is likely to be seen of greater importance following the Grenfell Tower fire.

Organisational change

The consultation paper says that providers are expected to consider how they will achieve value for money at both an operational and a strategic level. It suggests that they may need to consider organisational change, such as a different group structure or a merger with another organisation.

This gives the impression that organisational change that delivers greater VfM requires larger bodies, presumably to give economies of scale and increased financial capacity. Yet there is considerable evidence of limitations to this approach, such as the CIH report Does size matter - or does culture drive value for money? – which critically reviewed the evidence, concluding that:

- Cost, performance and size are not directly linked – there is little evidence that size and lower costs are related, and indeed there is evidence of a correlation between high cost and poor performance.
- Scale alone does not automatically provide efficiency – analysis of available data did not provide any statistical evidence of economies of scale to be achieved through size.
- Mergers can lead to better value for money but this is by no means guaranteed.

CIH considers that the regulator should give a more nuanced message on organisational change, encouraging that which creates greater value in the broad senses identified here.