October 2016

**Briefing:**

**Value for Money**

A changing approach from the Regulator
1. Introduction

This briefing summarises recent developments regarding the Social Housing Regulator’s (the Regulator’s) approach to regulating the Economic Standards, in particular the growing importance of Value for Money (VfM). For further information on VfM self-assessments specifically, please see our briefing on this.

2. The Value for Money Standard

The VfM Standard was introduced in 2012 as one of the Regulator’s Economic Standards and requires Registered Providers (RPs) to ‘articulate and deliver a comprehensive and strategic approach to achieving value for money in meeting their organisation’s objectives.’

Specifically RPs must:

- have a robust approach to decision making regarding the use of resources
- understand the return on assets and have a strategy for optimising this in the future
- have performance management and scrutiny functions which effectively drive improved value for money performance
- understand the costs and outcomes of delivering specific services.

Boards are required to demonstrate to stakeholders how they are meeting the requirements of the VfM Standard by publishing an annual self-assessment that is robust, transparent and accessible. The self-assessment must:

- enable stakeholders to understand the return on assets measured against the organisation’s objectives
- set out the absolute and comparative costs of delivering specific services
- evidence the value for money gains that have been and will be made.

2.1 A new approach

Previous assurance of compliance with the VfM Standard was focused almost exclusively on the quality of the annual self-assessment. Providers were found to be in breach of the standard if they did not publish a self-assessment, or if the Regulator took the view that the document did not meet the criteria described above.

The new Regulating the Standards document describes how VfM will be integrated far more into the Regulator’s overall approach to economic regulation. This move can be seen as a shift from assessing the quality of VfM reporting to assessing the quality of VfM strategy, approach and actual delivery.
3. **Value for Money – the Regulator’s operational approach**

The Regulator seeks to gain a strategic and evidenced understanding of the short and long-term risks that providers are exposed to, and a comprehensive understanding of their approach to VfM, through its regulation of the Economic Standards.

### 3.1 Stability Checks

The Regulator carries out an annual stability check of all providers that own more than a thousand social housing units. The purpose of this is to ascertain whether any material changes have occurred since the last detailed assessment.

The stability check includes a review of:

- financial position
- governance arrangements
- approach to VfM.

This is primarily done using existing regulatory returns such as Financial Forecast Return (FFR) and VfM self-assessment.

There are broadly two possible outcomes of a stability check:

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Regulatory response</th>
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<tbody>
<tr>
<td>No evidence of material change since last detailed assessment</td>
<td>Current regulatory judgements table is updated to reflect the date of the stability check</td>
</tr>
<tr>
<td>Evidence that an existing judgement may require revision</td>
<td>Further assessment and follow-up with the provider, and in some cases an In-Depth Assessment (IDA)</td>
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### 3.2 In-Depth Assessments

Providers with more than a thousand social housing units are subject to periodic IDAs. These would typically take place every three to four years, but the frequency is linked to the risk profile of the organisation and any significant organisational or sector-wide changes. Each IDA is a bespoke piece of work considering the provider’s financial viability, approach to VfM and governance.

The most significant change in regulatory approach relates to IDAs as VfM has been explicitly included in the IDA model for the first time. The table below compares the relevant sections of the 2015 and 2016 IDA models.
<table>
<thead>
<tr>
<th>Component</th>
<th>Element</th>
<th>Assessment focus 2015</th>
<th>Assessment focus 2016</th>
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<tbody>
<tr>
<td>Strategy</td>
<td>Strategic direction</td>
<td>The provider’s short and medium term priorities and ambitions and how they relate to its operating environments and markets.</td>
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<td></td>
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<td>The provider’s strategic approach to the delivery of Value for Money in meeting its objectives.</td>
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<tr>
<td>Financial resilience</td>
<td>Cost structure and efficiency</td>
<td>So that we can assess the sustainability and deliverability of cash flows we need to understand the provider’s costs (including its projected stock maintenance costs).</td>
<td>So that we can assess the sustainability and deliverability of cash flows and operating efficiencies, we need to understand the provider’s costs and the main drivers for those costs (including its actual and projected operating costs as well as its capital investment and stock re-investment costs).</td>
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<td>As part of our consideration of Value for Money, we use unit cost data derived from a provider’s annual accounts and FFRs to determine its approach to optimising efficiency in achieving its overall objectives. Where, for example, data identifies that a provider has unusually high costs, we will look for evidence of the additional benefits those higher costs deliver, whether as a result of a conscious business decision (high investment for high outcomes) and if not,</td>
</tr>
<tr>
<td>Governance</td>
<td>Overall governance control</td>
<td></td>
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| Analyser | Analysing how far we have assurance that the provider is mitigating key risks to acceptable levels. Includes:  
  - Quality of business plans  
  - Quality of management reporting and forecasting  
  - Timely arrangement of financing  
  - Overall and specific controls assurance  
  - Board skills, effectiveness and interface with the executive |
| Our assessment of the overall quality of governance arrangements (including evidence relating to how the board has taken significant decisions, transparency) will be linked to how well providers are delivering their corporate strategy and managing the associated risks. |
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| Boards’ ability to articulate and deliver a comprehensive and strategic approach to Value for Money is a leading indicator of good governance. We seek assurance that boards have a comprehensive strategy to deliver ongoing improvements in efficiency and ensure they are using their resources and assets in the most cost-effective way |
4. Conclusion

The Regulator has demonstrated its renewed focus on Value for Money in recent months with the publication of a number of documents and public statements from senior staff.

The Delivering better value for money: understanding differences in unit costs report combined an analysis of headline unit cost data over a period of time with a regression analysis on potential drivers of unit cost variation. The headline social housing unit cost data in particular will continue to be used by the Regulator as a way of engaging boards in discussions on value and efficiency. The report was accompanied by a review of value for money self-assessments, and shortly followed by the updated approach to regulation discussed above.

The Regulator has placed Value for Money at the centre of its approach to regulating the Economic Standards and it is important that this development is replicated by providers. Robust consideration of value and efficiency must now be demonstrably central to strategic decisions taken by executive teams and boards, and should form a central plank of the organisation’s approach to regulatory compliance and risk management.

5. Further information

Value for Money self assessments

In-depth assessments – an advice note for members

HCA - Delivering better value for money: understanding differences in unit costs

HCA - Unit cost analysis letters to chairs

HCA - Regulating the Standards

HCA - Regulatory Standards