MEASURING VALUE FOR MONEY: CONTEXT, PERFORMANCE AND STRATEGIC ISSUES

A Report Produced For PlaceShapers

April 2015

Brendan Nevin
North Housing Consulting Limited
brendan.nevin2@btinternet.com
07817 924390

Acknowledgement

The author would like to thank Lucy Ferman and Tom Riches from PlaceShapers who offered advice, information and editorial support. Without their support and the financial analysis derived from the PlaceShapers database, this Report could not have been produced. Additionally I am grateful for the comments received from Board members on early drafts of this paper.

Executive Summary

1. This report sets out how the PlaceShapers membership has responded to the evolving Value For Money (VFM) framework that forms part of the Homes and Communities Agency (HCA)'s regulatory standards. The report appraises the results of a systematic audit of VFM statements produced by the PlaceShapers membership, and illustrates how they use the resources generated by their approach to fund new housing supply and regeneration programmes. This appraisal also identifies a number of issues that highlight the need for a bilateral discussion with the HCA as the framework develops and makes a number of suggestions about how data should be recorded to develop a national VFM database.

2. The national narrative relating to VFM for social housing is primarily focused upon securing efficiencies to develop new housing supply. Analysis of PlaceShapers' VFM statements suggests that there are in fact a diverse set of drivers for efficiency including government policy on rents; welfare reform; pension contributions; and the performance of the local housing and labour markets. These drivers of efficiency have a different impact in respect of geography and by type of organisation.

3. Given the wide variety of drivers of efficiency and the geographical differences in economic performance and housing markets, the VFM statements of PlaceShaper organisations can only be properly understood when placed in the context of the dynamics of the locality.

4. The current debate in relation to VFM and the efficiency of the sector is largely being conducted in an evidential vacuum. The PlaceShapers analysis of 105 VFM statements with its associated estimate of the 2013/14 efficiency savings provides a valuable insight into the scale of current activity in this area. The analysis highlights £109m of efficiency savings on an annual turnover of £3.84bn (2.8%). The exercise provides a best estimate of the value of efficiencies but also highlights where nationally, through collaboration with the HCA, improvements could be made to the collection of data and to longitudinal analysis.

5. As the VFM framework is developing there has been a clear focus from the HCA on ensuring that landlords understand the financial return that is generated by their asset base. This focus aims to ensure that monetary value informs future investment and divestment decisions. The current framework is narrowly focused upon value and is silent on the social costs and benefits of asset management decisions. Many PlaceShapers organisations are developing bottom up approaches to this issue. These approaches take into account wider social and economic issues, which can be aligned with Social Return On Investment calculations, to provide a deeper understanding of the performance of places as well as property. This part of the evolving framework would benefit from a strategic discussion between PlaceShapers and the HCA about how the different approaches can be developed in a coherent manner to add value to the debate about assets, people and places.

6. Social Return on Investment (SORI) methodologies provide a useful tool for Board members to understand and rank the importance of non-commercial regeneration investment proposals. Methodologies used to calculate social return often provide an estimate of cost savings to the broader public sector which flow from intervention, thus providing a basis for discussion around local partnership working during a period of resource scarcity. The incorporation of the SROI approach into the HCA framework would also help the regulator to understand the contribution the sector makes to broader issues of VFM in relation to a spectrum of public agencies that operate in areas with high concentrations of social housing.

7. There is a difficult balance to be struck to accommodate the views of government and independent housing organisations within a national VFM framework. Housing Associations have long term Business Plans, loan agreements and local objectives. It is important therefore that the national framework is stable. Policy shocks will make the development of a long-term approach to measuring VFM in its local context less effective.

1. **Introduction and Context**

1.1 During the last three years housing associations have been developing approaches to measuring Value for Money (VFM) within a framework set by the Homes and Communities Agency (HCA) as a part of the regulatory regime for social housing in England. The framework for VFM has been designed to be non prescriptive and is based around a series of questions which require an evidence based response (see *The Regulatory Framework for Social Housing in England*). Housing associations are now required to produce a VFM statement each year, with responses deemed to be inadequate by the HCA resulting in a governance downgrade. In the first two years of operation 19 organisations have been downgraded for not achieving the standard of response expected by the HCA. It should be noted at this point that the onus of proof that VFM processes, procedures and outcomes are satisfactory rest with the housing association and a governance downgrade does not confirm an absence of VFM just a judgement that the evidence to support a positive assessment has not been forthcoming.

1.2 The financial context to the extension of the regulatory regime to include VFM is now well established with national austerity programmes significantly reducing public sector capital investment in new housing supply, while rising rents and depressed household incomes have conversely increased expenditure on Housing Benefit at a time when Government policy has been seeking to contain welfare costs. The pressure to reduce costs and produce efficiencies is present across the public sector. While housing associations are anchored in the Not for Profit Sector, the reality is that they are subject to intense scrutiny by central government because of the extent of historic and current public sector subsidy received through grant and rent rebate. Housing associations also stand out because as social businesses they achieve surpluses that in 2014/15 totalled £2.4bn and provide (paradoxically) a further impetus for politicians and parts of the media to seek assurances that VFM is achieved in the sector.

Measuring Value for Money

1.3 The National Audit Office in its note "Assessing Value for Money" uses three concepts to assess the value for money of government spending, as defined by, "the optimal use of resources to achieve the intended outcomes". The concepts are:

- *Economy*- A focus that minimises the cost of resources used or required. This focuses on the inputs needed to achieve the stated objectives;

- *Efficiency*- The relationship between the outputs achieved and the resources required to produce them; and

- *Effectiveness* – the relationship between the intended and actual results of spending (ie outcomes).

The relationship between organisational goals, resources consumed and the outcomes delivered determines cost effectiveness or Value For Money. The process of determining VFM is often supported by a fourth criterion, *Equity*. This recognises that in some cases it is appropriate to have a higher level of inputs to support needs or to ensure access to services.

1.4 Because of the complexity of the social housing sector and the multifaceted nature of organisational aims and objectives, the approach to VFM is still evolving and should be seen as a work in progress both for landlords and the HCA. The Director of Regulation at the HCA has recently summarised the fluid nature of policy development in the following way:

"*We'll raise the bar again next year…. if this is not the end of the VFM story how will it develop? It is hard to be certain, but a conclusion that the issue might go away belongs in the fantasy section. Two things are pretty clear. First, as a society we need to build a lot more homes and housing associations will need to play a big role if that is to be achieved. Second, public money will remain very thin on the ground for the foreseeable future. Put those two things together and it is hard to believe that the pressure won't increase."*
(Matthew Bailes: The VFM questions all associations should be able to answer. 23/3/15)

1.5 The narrative around the evolving VFM framework has to date focused on the rationale for its introduction and the sanctions that may result from non-compliance. The process has also generated a significant amount of evidence, which collectively provides a valuable insight into the performance of the social housing sector and illustrates innovation and a strong commitment to use efficiency savings to reinvest in homes and communities. Rather than being a source of negativity, improving the way the sector designs and measures VFM, and the attendant benefits provided by subsequent reinvestment, could become a route through which recognition of the work it does for and with disadvantaged communities is secured. There is therefore a real opportunity to change the current negative tone of the VFM debate and use the experience of PlaceShapers members to make the case for continued public sector investment during an era of austerity.

Report Methods and Structure

1.6 This short report was commissioned by PlaceShapers to look in more detail at the information contained in its members' VFM statements. The research objectives were:

- To appraise the results of an audit of PlaceShapers members' VFM statements in the 2013/14 period;
- To stratify the analysis by size and geography and any other breakdown which may be appropriate;
- To illustrate the results with a range of examples from around the country which set out how PlaceShapers contribute to neighbourhood regeneration and stability in a period of austerity;

- To relate the findings to the emerging policy framework 2015-2020; and
- To set out how PlaceShapers can further develop the collective approach to measuring VFM and articulating its membership's contribution to achieving social value and regeneration.

1.7 The author was able to draw on a comprehensive database of PlaceShapers' VFM statements and an analysis of efficiency savings and the social return on investment calculations that were contained within them. This data set provided information by type and size of organisation and by geography. The review of the VFM statements by the author sought to meet the objectives set out in the Brief by focusing upon the following issues:

- The identification of the characteristics of strong VFM statements;
- The identification of the business drivers for efficiency and VFM;
- Areas of work which require more development;
- The importance of locality for VFM;
- The relationship between efficiency savings and reinvestment in communities; and
- The identification of issues the sector will need to consider as the VFM framework is further developed.

1.8 The remainder of this document attempts to capture the many cross cutting themes contained in the statements and disaggregate them so that the evolving approach to VFM is assessed in the context of the very complex environments within which PlaceShapers operate.

1.9 Section 2 highlights the drivers of change identified by housing organisations and the broad characteristics of strong VFM statements. The section finishes by highlighting the importance of localities and markets in shaping the strategic development of investment, procurement and delivery programmes.

1.10 Section Three explores the issues surrounding the scale and measurement of efficiency savings and the relationship with investment in new housing supply and community based regeneration.

1.11 Section Four briefly looks at the emerging practice in relation to the measurement of return on assets and the deployment of a social return on investment (SROI) technique.

1.12 Finally, Section Five summarises the conclusions of the report and sets out some key issues for further development over the next year or two.

2. VFM Statements: Clarity of Purpose, Drivers of Efficiency and the importance of Locality

2.1 The response from the PlaceShapers membership to the requirement to provide a demonstration that VFM is being achieved has been diverse rather than standardised. This reflects the lack of prescription by the HCA and its recognition that objectives often differ from organisation to organisation and are varied by geography. Some PlaceShapers members have produced VFM statements separately while others have incorporated them into the annual financial statements. Because there is no template to conform to when answering the question 'what constitutes a strong VFM statement?' a subjective rather than scientific assessment has to be made to illustrate how the responses of landlords clearly answered the questions asked by the Regulator. The author therefore applied three broad criteria to assessing the strength of VFM statements. These are, firstly, what needs to be present to satisfy the Regulator given the questions it has laid out in its regulatory framework? Secondly what is the logic for the focus of the VFM approach and its forecast outcomes? Thirdly how comprehensive, systematic and well evidenced is the approach?

2.2 Given these basic assessment criteria, it should not be a surprise that the strongest statements of PlaceShapers members demonstrated clarity of purpose by having some or all of the following characteristics:

- A VFM approach which is clearly framed by the objectives of the organisational Corporate Strategy/Plan and is seen as an integral part of an approach to deliver measurable targets;
- A statement that demonstrates clear evidence of Board ownership and oversight of the VFM strategy and programme;
- Performance that is supported by a high quality of benchmarking and a comprehensive use of data which informs investment decisions and resource allocation;
- A clear programme of efficiency savings and measures to improve economy and effectiveness over time;
- The most advanced PlaceShapers members with respect to achieving VFM also often demonstrated a systematic VFM programme for each service area over time;
- Where PlaceShapers members were devoting significant management resources to a single or small number of critical issues (such as under-performance of repairs and maintenance) they were clear about the reasons why this was necessary and set out future priorities for action across services and evidenced that development work was under way; and

- To be absolutely clear that they had met the regulator's requirement, some statements provided a summary of evidence for each of the questions posed by the HCA framework.

2.3 The review of statements reveals a wide variety of different approaches to addressing the VFM question which include the following: long term rolling programmes of efficiency reviews, ad hoc problem focused interventions which are often targeting a specified monetary saving, and the development of targets which set year on year percentage efficiency gains. Some of the more robust approaches have VFM processes built into the achievement of long-term strategic objectives with KPIs being assessed on an annual basis to determine the contribution made. The strongest approaches see VFM as a tool embedded in the operational environment as a whole rather than a complementary activity and use it to forge connections between corporate objectives and new policy requirements such as stress testing.

Economy, Efficiency, Effectiveness: The Links to Housing Supply and Regeneration

2.4 Many of the statements make a *direct* connection between the ability to maintain and enhance regeneration initiatives and efficiency savings. Mostly these savings have been targeted at community support initiatives, assistance for troubled families, job creation and the provision of apprenticeships, and replacing withdrawn Supporting People funding. In some areas of London, the Midlands and the North, PlaceShapers members have developed over a period of time a significant capacity to deliver regeneration. For example one organisation in the Midlands provides training opportunities and apprenticeships for around 1,000 young people per year, while another operating in a highly deprived area of London invests across a wide range of issues including crime and anti-social behaviour (including funding a police team), family support services, employment and training, and a reduction in overcrowding. The commitment to regeneration doesn't only relate to investment of money and building of capacity. It also relates to organisational culture as demonstrated by a PlaceShapers member in the North West who facilitated more than 200 staff volunteer days to work with the local community. The breadth and depth of commitment to community reinvestment is often overlooked in the VFM and efficiency debates. This is one of the reasons why SROI calculations should form an important part of the VFM framework.

2.5 Most PlaceShapers demonstrate a strong commitment to regeneration and in some cases organisations link the leverage of regeneration funds to efficiency gains. Whilst there may be some impact on efficiency from doing this, the principle impact will be on economy and effectiveness with a combined mix of internal revenue contributions and the leverage of external funding at scale enhancing capacity to create a sustainable regeneration function to achieve corporate objectives and enhanced VFM. A good example of this process is illustrated by a medium sized organisation operating in the West Midlands who has shown that size is not necessarily a barrier to developing significant regeneration capacity to achieve corporate objectives. In recent years it has successfully developed capacity through:

- Cabinet Office funding of £1m to provide a fund to assist young people into mainstream economic activity;
- Securing an £1.5m European Regional Development Fund grant to support local businesses to deliver a large scale retrofit package for social housing; and
- The appointment as lead agency to deliver a City Deal programme to deliver a five-year £2.8m employment programme at a sub regional level.

2.6 These three projects secured £5.3 million of funding and are highlighted not because they are the largest in scope and scale in respect of regeneration (there are a number which are significantly larger) but because they are good examples of a medium sized organisation generating VFM through enhancing economy and effectiveness by developing long term regeneration capacity.

2.7 The contribution towards house building for many was an *indirect* outcome of using VFM techniques to support robust business plans and surplus generation to cross subsidise new supply. A minority noted that by achieving effective treasury management and refinancing they were able to achieve a significant uplift in new build. This was important both in low demand areas (in the North East for example) and in high demand areas such as the South East. In reality, the major contribution to achieving new housing supply through cross subsidy has been achieved by treasury and asset management but this has also been *directly* supported in some cases through efficiencies which have been achieved in procurement processes associated with a new build programme.

The Diverse Drivers of Efficiency Programmes and the Importance of Locality

2.8 The drive to achieve efficiencies is often articulated at a national level by the HCA and politicians in a narrative that prioritises new supply over other objectives. An examination of the VFM statements suggests that there is a more complex set of inter-related drivers present at a local level. These include:

1. The need to increase housing supply through fully utilising an appreciating asset base. This is most prevalent in London and the South and is exemplified by one inner London Housing Association who view the redevelopment and intensification of their land and property assets as being key to achieving VFM in the long term for the organisation and the communities they serve;
2. The impact of the cessation of rent convergence policies after 2015 which generates a need for year-on-year cost savings in some organisations for the duration of their Business Plan;
3. Projected increases in employer contributions to pensions which also impacts on Business Plans going forward;

4. The impact of the first round of welfare reform on some management indicators in some locations. The introduction of Universal Credit and further cuts in welfare programmes may intensify these cost pressures going forward; and

5. Low demand, which as a phenomenon is less wide spread than was the case in the late 1990s, but still remains a problem in certain parts of the country such as Merseyside and the North East. For example, a PlaceShapers member based in County Durham has an active demolition programme related to low demand, while another in Merseyside has reduced its forecast rents by 3% compared to its Business Plan projections in an attempt to stay competitive in a low pressure market.

2.9 There are therefore diverse drivers to achieve efficiencies and they will impact on places differentially because of local market factors and history. There are clearly different drivers in operation between high demand and low demand areas. There is also a deeply entrenched inequality in economic performance between North and South that is reflected in asset values and exacerbated by the impact of welfare reform. The differences in drivers are not restricted however to geography alone. Organisations evolving from Large Scale Voluntary Transfers may have business plans that have been particularly affected by recent public policy changes, which have pushed up costs and restricted future income. Additionally, when attempting to identify the drivers of efficiency one has to be aware of the importance of geography and history, both of which can affect costs. Examples of this include: Ex new town stock where because of the historic provision of open space and the predominance of Radburn design there are very substantial environmental management costs; Increased management costs associated with high density development in London, and; The high costs of managing housing in communities which have experienced long term worklessness as a result of deindustrialisation.

2.10 The key issue emerging from this is that when assessing approaches to VFM, both the landlord and the regulator have to understand the locality, its history and economic trajectory. Without this context, judgements about economy, efficiency and effectiveness made at the local and national levels will be of little practical value.

3. Capturing the Value of Efficiency Savings

3.1 The current debate in relation to VFM and the efficiency of the sector is being conducted in something of an evidential vacuum. Much of the media debate on the performance of housing associations is not anchored in hard data relating to efficiency savings being generated by the sector on an annual basis. The Housing Minister Brandon Lewis has been quoted as saying “I do think the Sector can and should do more to ensure that it is efficient and ambitious as it can be”, noting that a 1% increase in efficiency (£110m) on sector operating costs of £11bn could fund up to 112,000 new housing units

(*Inside Housing 27/3/15 p3)*. While this calculation derived from the HCA global accounts for the sector may be accurate, it represents a rather simplistic analysis as it does not place the 1% figure in a context which sets out projections of efficiency savings going forward. Additionally, the view that efficiency savings are singularly driven by the need for new supply does not take account of the multifaceted reasons that determine *why* savings are needed as noted in Section Two above. To be fair to the Minister, he could not currently have deployed a more thoughtful interjection to the debate because a comprehensive database setting out what the sector is doing and seeking to achieve does not exist.

3.2 PlaceShapers' work to estimate and quantify the efficiency savings generated by its national membership based on their 2014 VFM statements therefore makes a valuable contribution to the debate and provides some context to the Minister's comments highlighted above, with the caveat that measuring the monetary value of efficiency savings nationally is still a work in progress and will need to be refined over time.

3.3 PlaceShapers identified efficiency savings totalling £109m in the 105 VFM statements reviewed. This amounts to 2.8% of its membership's £3.84bn turnover. These figures provide a useful benchmark for discussion but should be seen as a "best estimate" rather than a definitive figure for that year because in some statements there is a "spill over" of savings from the previous year and estimates of savings for future years which could not be disaggregated from the savings total given for the financial year 2013/14.

3.4 The analysis of the 2014 statements tends to suggest that, at the national level, time could be invested in identifying efficiency savings over a multi-year programme of activity with annual estimates being identified over a period of years. This conclusion is drawn because:

- Many housing associations are implementing multi year efficiency programmes which tend to produce an acceleration in financial returns after a time lag;
- On occasion, the 2014 Statements included aggregated savings over two or more years;
- As noted in Section Two, some PlaceShapers members have been impacted by several market and public policy drivers that make VFM and efficiency programmes a central component of their Corporate Plans. Many of these organisations have maturing programmes designed to secure efficiencies, whilst others have geared up to a programme-based approach (as opposed to being problem focused) more slowly; and
- The ranking of achievements on an annual basis does not therefore give a fair picture of achievement and also fails to take into account the reality that some organisations will be in between finishing one programme and designing another, therefore temporarily producing low levels of savings.

The PlaceShapers Efficiency Savings Analysis

3.5 Table 1 below sets out the identified efficiency savings generated by the PlaceShapers membership collectively by geography, type and size. This shows that expressed as an average % of turnover, efficiency gains are highest in the North and Midlands and greater for LSVT associations than others. Intuitively this feels accurate given the drivers for efficiency noted in the review of the statements in Section Two. There is no apparent relationship between landlord size and the drive for efficiency.

3.6 Given the caveats set out above, it could be concluded that the 2.8% efficiency savings total for 2014 is an over-estimate of the actual savings achieved in a 12-month period. However, this too may not be accurate as other substantial savings generated by effective treasury management and refinancing are not always included in the figures above.

3.7 The 2.8% figure of average efficiency savings achieved by the PlaceShapers' membership demonstrates a significant commitment to the VFM agenda, even if the total is spread over more than one financial year. This contribution is likely to be *indicative* of the sector's achievement generally, a success that will be clearer still if the impact of multiyear efficiency programmes can be captured.

Table 1: Efficiency Savings by Geography, HA Type and Size

Region Comparisons	Efficiency gains	Turnover	Average % efficiency gains on turnover
North (45)	56,537,426	1,759,875,087	3.21%
Midlands (15)	22,559,921	544,967,000	4.13%
East (14)	9,543,571	393,926,575	2.42%
South (19)	12,398,162	641,325,000	1.93%
London (12)	8,007,082	498,662,000	1.60%
Total (105)	109,046,162	3,838,755,662	2.84%

HA Type Comparisons	Efficiency gains	Turnover	Average % efficiency gains on turnover
LSVT (59)	76,581,765	2,224,913,463	3.44%
Traditional (39)	20,599,578	1,031,066,199	2.00%
Mixed Groups (7)	11,864,819	582,776,000	2.04%
Total (105)	109,046,162	3,838,755,662	2.84%

Unit Comparisons	Efficiency gains	Turnover	Average % of efficiency gains on turnover
0 - 2,500 (14)	3,604,927	127,704,601	2.82%
2,500 - 5,000 (33)	18,022,434	708,745,486	2.54%
5,000 - 10,000 (38)	43,560,282	1,397,486,575	3.12%
10,000 + (20)	43,858,519	1,604,819,000	2.73%
Total (105)	109,046,162	3,838,755,662	2.84%

Source: PlaceShapers

4. Return on Assets: A Work in Progress

4.1 The refinancing of social housing during this era of low interest rates has been a major contributor to developing an annual surplus for the sector of £2.4bn in 2014/15, a surplus which is necessary to keep the development programme going during a period of historically low grant rates. As Julian Ashby has noted "In short if there were not surpluses, then there would be very little by way of housing programmes"(Question of Surplus: Inside Housing 20/3/15 p17). He notes that real increases in rents (above CPI), house price inflation, negative real interest rates and asset sales have driven an increase in the value of surpluses from £1.1bn over the last four years- an increase of 118%. This unique combination of factors has led to the doubling of the rate of return on equity invested (in this case government grant is a proxy for equity) to 5%. The new focus on the return on assets has been designed to facilitate "a drive to become more self-reliant financially and to grow a larger and higher quality portfolio".

4.2 As noted at the beginning of this report, VFM frameworks are tools to measure the cost effectiveness of delivering organisational goals. It is however unclear how widely the objectives highlighted in the quote above are shared by the social housing movement. A requirement to produce a global return on investment in the absence of consensus may be more focused on providing an answer for the regulator rather than as a tool to reconfigure assets for the reasons suggested. For many, a higher quality portfolio within existing stock numbers and increased financial resilience may be more important in an era of austerity than stretching the organisation financially, particularly if agreed corporate strategies are focused on supporting key neighbourhoods and client groups.

4.3 A perceived lack of clarity on expected outcomes in relation to financial return on assets and the relevance of this policy focus to the receiving organisation might explain why a variety of calculation tools were used in the VFM statements, all of which produce very different outcomes. Currently, social landlords are can use three measurements: The use of net Book Value as a bench mark for asset valuation which produces a relatively high percentage return, Existing Use Value for Social Housing using the Beacon approach which introduces market price signals, and Existing Use Value calculated using discounted costs and revenues which produces the lower valuation of the two. Generally it is unclear from the statements which Existing Use Value calculation is being deployed.

4.4 Housing associations generally acknowledge that the development of methodologies to measure the return on assets is a work in progress. Indeed, there is a significant amount of development work being undertaken to develop NPV calculations for individual properties, asset groups and neighbourhoods, and thus provide improved information to guide investment and asset reconfiguration.

4.5 The main advantage of disaggregating the return on assets to a much lower level is that it provides information to place-based organisations which can inform decisions about the use of assets in tandem with regeneration and other resource inputs which will lead to more sustainable communities. There are therefore two entirely different but legitimate and not mutually exclusive approaches set out here. The first mirrors the private sector in attempting to construct a return on assets using the organisation's global accounts and is top down in nature and silent on social costs and the benefits of asset management driven by value. The second is constructed from the bottom up and measures the sustainability and value of neighbourhoods and properties. This bottom up method can accommodate additional social and economic analysis, potentially providing a broader methodology with which to approach resource allocation and asset management than those normally applied to private sector organisations.

4.6 The use of the two approaches together has some merit as this could highlight the opportunity costs arising from taking decisions to use asset management to prioritise increased supply, or using additional social and economic data in a broader cost benefit analysis to inform investment in neighbourhood quality and sustainability. A strategic discussion between Registered Providers and the HCA about the different approaches to measuring the return on assets and the potential for a dual approach would be of help here. Clearly there is also a discussion to be had about the perceived merits of the two approaches when future regulatory judgements are made.

Return on Investment Calculations: Recognising Complexity

4.7 There is clearly a debate to be had about what constitutes a return on investment that has occurred cumulatively over five decades and the "right " approach will not easily be identified or universally agreed. The technical difficulties are neatly summarised by a PlaceShapers member in the East Midlands who notes it has a portfolio that includes older properties that benefited from grant rates of up to 80%, new properties where the grant rate is 20% and LSVT stock with a cost that covers the discounted purchase price plus the investment needed for improvement. This association concludes, "Due to the costs of different methods of acquisition and significant differences in funding, measuring the Net Present Value compared to the initial investment would be of limited benefit".

4.8 Measurements of the return on social housing assets are likely to become more contested the more it is seen to drive national housing policy in a specific direction and/or the more directive Government statements become. There is already the beginning of a potentially vibrant debate about the value produced by social housing. For example, PlaceShapers members in Merseyside and East London have developed the concept of a "social housing dividend" for their areas. This estimates the difference in rents charged by the private sector compared with social housing rents and expresses the value as an annual saving to tenants and the public purse. The annual figure for the social housing dividend for the two landlords was £26m in Merseyside and £30m in East London (where rents were only 30% of the market average).

Social Return on Investment

4.9 An alternative approach to measuring value has also been developed through SROI methodologies. Table 2 below shows the SROI calculations included in VFM statements for those of the PlaceShapers' membership who attempted this. As can be seen, there is a very large spread in the value of returns measured by region (which would also be the case if individual organisations were compared). This is partly the result of the different and non-standardised methodologies deployed to measure social value. It also reflects the choices individual associations have made in respect of the scope and scale of the work they have chosen to value in this way with social value calculations applied partially by some to individual services and others attempting an assessment across a portfolio of activities. Whilst this makes comparisons in returns between organisations and geography problematic, it is clear from the review of statements that some associations find SROI to be a useful tool when it is embedded within a VFM framework. This is particularly the case for projects and programmes that do not provide a straightforward financial return.

4.10 The VFM framework developed by the HCA is currently silent on the use of SROI methodologies despite the contribution this can make to governance and understanding the costs and benefits of non-commercial activities when investment decisions are made at Board level. Additionally, in a period of austerity, the deployment of SORI methodologies frequently identifies savings to the wider public sector that accrue from housing associations' regeneration and community investment activity. Sitting behind the figures in Table 2 are the substantial benefits that flow to other services such as the police and the NHS from housing and community regeneration support. For example, a PlaceShaper based in Inner West London has estimated that in 2013/14 the organisation generated £96m of value for its stakeholders through its delivery and funding of work with families, income maximisation, training and employment.

4.11 For place-based housing associations working to create sustainable communities at a time of significant public expenditure reductions, SORI calculations are therefore an important tool. This is not only in the context of helping to demonstrate their own VFM but also to demonstrate to national and local agencies the wider economic value of partnership working and pooling resources.

Table 2: Social Value Ratios by Geography, HA Type and Size

Region Comparisons	Social Value ratios
North	1:11.4
Midlands	1:6.3
East	1:16
South	1:9.5
London	1:10.3

HA Type Comparisons	Social Value ratios
LSVT	1:12.2
Traditional	1:7.9
Mixed Groups	1:7

Unit Comparisons	Social Value ratios
0 - 2,500 (16)	1:6.4
2,500 - 5,000 (33)	1:7.9
5,000 - 10,000 (40)	1:13.2
10,000 + (21)	1:10.3

Source: PlaceShapers- based on a sample of 28 SROI calculations

5. Conclusions and Issues Going Forward

5.1 A review of the VFM statements produced by the PlaceShapers membership illustrates the diversity of the sector and the fact that different organisations respond to different drivers at different times depending upon local circumstances. For some, major organisational issues or evident problems such as securing a more efficient Direct Labour Organisation post transfer become an immediate priority given the impact on finances and management performance. For others, gearing up long-term approaches to VFM and efficiency are now taking precedence because of the cumulative impact of market and public policy changes on forward projections of cash flow. Conversely, in high-pressure markets, the opportunities presented by estate reconfiguration and astute asset management can give an aspirational and optimistic feel to the VFM narrative. The conclusion to be drawn from these points is that there is no single narrative that explains the performance of the housing association sector and its trajectory. To understand VFM in a social housing context requires a nuanced understanding of local markets and the different issues faced by towns, cities, rural areas and their diverse communities.

5.2 The PlaceShapers' VFM statements considered as a body of literature give a unique insight into the challenges faced by social housing organisations and their goals and aspirations for the future. With the benefit of hindsight, the content also highlights just how far the housing sector has come in ensuring quality service delivery over the last two decades. The quality and the depth of benchmarking data contained in the VFM statements is illustrative of this commitment as are the baseline statistics relating to core management outcomes and resident satisfaction. One example of this is contained in a statement from a PlaceShapers member based in inner Manchester which highlights 100% rent collection and only 0.5% rent loss – a situation in this deprived inner city location which would have been difficult to conceive of two decades ago.

5.3 The evidence that economy and efficiency savings and the resulting surpluses are overwhelmingly reinvested in improving housing supply and quality, whilst also protecting and enhancing regeneration activity, demonstrates a long-term commitment to areas and communities which have struggled to share in national prosperity over many decades. PlaceShapers say that their members are "in it for the long-term" with a legacy that lasts generations and a review of their investment programmes and VFM statements confirms this. The extent of community and regeneration support provided by place-based associations such as these has expanded hugely in both scope and scale over the last 25 years alongside the improvements to core housing management indicators.

5.4 If an objective is to build a resilient long-term approach to the development of a VFM framework for housing associations, then there is a difficult balance to be struck to accommodate the views of government and those of independent housing organisations. To achieve a consensus requires a shared medium and long-term view of the role that independent social housing providers will play in delivering and managing affordable homes for rent in the local housing market context. If this is not achievable, longitudinal comparisons of the performance of the sector will never be possible because oscillation in the policy framework which drives regulation will periodically impose radical new objectives which change the rules of game for organisations operating within it. If this were to be the outcome, then VFM frameworks would be aligned with particular governments and their objectives rather than those of the independent providers.

5.5 Expanding further on the point made above. If a VFM framework were to be imposed by a future Government for short term political objectives, which restricts the ability of housing associations to manage assets and to raise finance, then this could damage the sector's performance over several business cycles when housing markets and local economies will change, interest rates will fluctuate and demand will shift. A review of recent history would suggest that we have experienced four housing market cycles since 1997 (1997-2001 characterised by slow growth in prices, turnover and construction, 2002-2008 explosive growth in all indicators, 2008- 2012 housing market crash, and 2012-15 differential spatial recovery). This indicates that at some point over the next three of four years the UK will again experience a shift in the business cycle that will alter the economic fundamentals for housing associations. It is critically important that housing associations retain their independence to respond locally to changes in the operating environment and retain their ability to design VFM frameworks that are driven by local housing circumstances and objectives whilst being responsive to movements in the economy and society.

5.6 From a landlord perspective, a sophisticated approach to VFM also requires robust measurement of its effectiveness over the medium and long term if the sector is to continue to successfully argue for public sector resources during a period when to 2020 at least, and possibly beyond, the pressure on public finances will remain intense.

5.7 As reiterated several times in this report, the approach to assessing VFM in the housing association sector is embryonic and at present there is every indication that the HCA will aim to improve on this in collaboration with the sector. There are a number of areas of work that emerge from the appraisal of PlaceShapers' VFM statements for 2014 that may help this process. Additionally, there are also issues which need to be worked through collaboratively so that Government Ministers, lenders and parts of the media more fully understand the policy, financial, economic and local factors which form the context within which housing association corporate plans and VFM outcomes can be understood. These are set out below:

- *Multi Year Programmes of Efficiency Savings* - As noted previously, a single year's assessment of a VFM strategy and the resulting efficiency savings does not capture the effectiveness of organisational responses to this agenda. Many housing associations already develop multi-year programmes across services with annual targets subject to review and measurement. A method for capturing these savings over time should be agreed for VFM statements.

- *Accounting For Reoccurring Savings* - Housing associations should seek to distinguish between reoccurring savings and those that are newly established in any financial year. Some agreement should be forged over how long reoccurring savings should be classified as efficiencies before they are incorporated into base budgets and "normalised". Without this, it will not be possible to estimate more accurately the effectiveness of VFM programmes individually or how the sector as whole is performing.

- *Accounting for inflation* - Programmes of efficiency savings generated over multi-year programmes need to be adjusted for inflation and expressed in real terms. Without this, the true value of the efficiency gains becomes distorted over time.

- *Locality Drivers* - Local context needs to be well understood by housing associations and the Regulator. Corporate strategies are shaped by public policy, financial and housing markets, local need and economic performance. Differential responses to these factors shape organisational VFM frameworks. The evidence from the PlaceShapers' VFM statements suggests that locality factors are critical in determining the balance between economy, efficiency and effectiveness and decisions to invest in or divest from property and places.

- *Return on Assets* - This is an area of the VFM framework that would benefit from a strategic discussion between providers and the HCA. There are a number of legitimate ways of measuring this variable that can produce different values and different policy prescriptions. Greater clarity on what Government is seeking to achieve as the approach is developed further would be of benefit to housing associations as this may help to manage any tensions that could arise between local and national objectives in relation to housing need and resource allocation.

- *Accounting for efficiencies arising from Treasury Management and Asset Management* - The financial surpluses which have supported the development programme delivering new housing supply in a low grant environment have been supported by refinancing and astute asset management in a recent period of house price inflation (especially in the South of England). The VFM statements generally do not reflect this contribution. This may partly be due to the fact that the economy gains from refinancing relate to a specific low interest rate period (the lowest for 350 years) that at some point in future will be reversed. The inclusion of temporary movements in finance costs as economy and efficiency savings may obscure long-term VFM gains as they will oscillate over time potentially being positive in one period and then negative in the next. This is another area where a strategic discussion is needed to determine what is in and out of scope. It is important to achieve clarity around this point as recent Ministerial announcements suggest a firm association between efficiency savings and new house building, whereas in fact it is the association between historically low interest rates, rent increases and house price inflation that has boosted surpluses (and therefore cross subsidy). In the absence of the long term durability of these factors, the proceeds of future efficiency and cost savings may be needed to maintain essential services going forward rather than to cross subsidise new-build developments in a low grant environment.

- *Distinguish Between Cost Savings and Efficiency Savings for Reinvestment* - In the medium term, organisations will need to accommodate savings necessary because of public policy changes such as reductions in welfare expenditure, higher contributions to pensions and the 30 year impact of the abandonment of rent convergence. Persistently low inflation may also add to a medium term squeeze on revenue. In this era of constrained revenue, it may be appropriate to distinguish between efficiencies resulting from choices to reinvest in services and cost reduction measures necessitated by revenue reductions. The latter types of cost cutting measures may of course be necessary for the business but could in turn reduce its ability to achieve wider corporate goals. This leads to…

- *VFM in an Era of Austerity, Keeping Perspective* - From the points set out above it can be seen that VFM relates critically to organisational objectives over a specific time period. Whilst all housing associations are used to the concept of doing "more with less", if public expenditure is reduced dramatically in areas which expose their business plans and /or interest rates rise towards their historic equilibrium, it is perfectly possible that, for a time, efficient organisations will no longer be able to meet corporate targets and will experience a corresponding drop in effectiveness. In these circumstances, well-run organisations could be seen to exhibit deteriorating VFM outcomes. If the circumstances described persist for any length of time, corporate plans will eventually be adjusted through the respecification of objectives with economy, effectiveness and efficiency realigned around a new reality. The issue here is one of maturity and the relationship between providers, the regulator and national politicians during a period of transition. An overview report from the HCA that details the impact of trading conditions and economic change on VFM could help explain the performance of the sector as a whole and highlight policy and business planning changes that may have been considered by providers during a period of transition. This would help place performance in a national context and would establish that temporary setbacks in respect of VFM do not automatically detract from the reputation of organisations that are otherwise efficient and effective in the long-term.