



Homes &
Communities
Agency

2016 Global Accounts Unit Cost Data

Supporting note



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Key messages

Overview

This note provides an overview of unit cost and contextual data published with the 2016 Global Accounts of private registered providers in February 2017. This data comprises:

- Headline social housing costs per unit, broken down into components.
- Key contextual information that may partially explain cost differences: supported housing, stock transfer age, and regional wages.

This data follows detailed analysis on unit costs published by the regulator and communicated by letters to all large providers in June 2016¹². The regulator intends to maintain the broad approach on unit costs described in June, taking assurance from the positive feedback from providers on the methodology. This note summarises key messages on unit costs and addresses technical data issues. More information which represents wider context to this note – including for example the Value for Money (VfM) Standard, Regulating the Standards, and unit cost analysis – is available on the regulator's website³.

Aims of publishing data

The regulator is aiming to support greater transparency on provider costs through compiling accounts data in a clear, comprehensive and comparable format. The information may help many providers and boards to better understand absolute and relative costs and to communicate this understanding to stakeholders. Using the contextual information, the dataset may potentially be used to inform cost benchmarking. Given cost data is drawn from providers' audited accounts, boards and providers should be able to account for particular cost lines and ultimately, the data may support boards to robustly challenge themselves, and their organisations, on the economy, efficiency and effectiveness of their expenditure.

The regulator considers headline social housing costs per unit as the best general measure to begin a consideration of costs. However, recognising that no single metric can perfectly capture diversity in business models and reporting approaches, the measure needs to be treated with a degree of caution. Beyond headline unit costs, additional data and analysis by providers is likely to be required to fully understand costs. The annex in this note addresses some of the technical issues around the published data that may arise in more detailed analysis.

The regulator takes a co-regulatory approach to value for money (VfM) as with all economic standards. We are not seeking to specify how providers must use their resources or assets, or how they achieve the balance between cost and scope or quality of services or investment in social activities. We are not mandating a 'right' level of operating costs, or encouraging providers to reduce costs at the expense of service delivery – for example by pulling out of important services like supported housing. However, by making data more transparent the regulator is seeking to support a strategic approach to VfM that is rigorous and evidence-based.

¹ <https://www.gov.uk/government/publications/delivering-better-value-for-money-understanding-differences-in-unit-costs>

² <https://www.gov.uk/government/publications/unit-cost-analysis-letter-to-chairs-of-all-large-registered-providers>

³ <https://www.gov.uk/topic/housing/regulation>

How the regulator will use this data

As communicated in letters in June 2016 and reflected in the Regulating the Standards⁴, the regulator will be increasingly challenging providers on their approach to optimising efficiency in the achievement of their objectives. In conjunction with providers' own analysis, the data is used as a reference point in In-Depth Assessments (IDAs) and Stability Checks. Providers will be challenged if there is evidence to suggest absolute and relative costs are not properly understood. Where costs are relatively high, the regulator will seek assurance that the provider understands why this is the case, whether this is the result of a conscious business decision and, if not, what the provider's plans are to reduce costs or improve outcomes.

As part of IDAs the regulator will review costs for providers that are comparable in terms of the key contextual factors in the published dataset. The regulator does not consider there to be a definitive 'correct' peer group for any provider. While the key contextual factors are those with the closest statistical link to cost differences on average, there may be a range of factors that could legitimately inform peer selection. The regulator does not use, and does not plan to use, projected costs from the 'regression analysis' published in June 2016 as a reference point for regulatory engagement.

The social housing regulator is currently reviewing its approach to VfM regulation and plans to consult on possible changes to the VfM standard later in 2017. However, it will remain essential that boards have a strong understanding of their operating costs; the unit cost and contextual data that accompanies this Global Accounts publication will remain an important regulatory tool.

⁴ <https://www.gov.uk/government/publications/social-housing-regulation-regulating-the-standards>

Understanding unit costs – technical annex

Headline social housing costs definition

The headline social housing costs metric has been defined by the regulator following careful consideration of alternative measures in light of the regulator's objectives. The metric is a 'proxy cash' measure that aims to estimate gross actual expenditure on social housing activities in a way that is robust to different accounting or cost apportionment approaches. While there is not a single perfect measure of costs that can be derived from Global Accounts data, the regulator considers headline social housing costs as the most appropriate primary cost metric.

Headline costs is made up of the several main components – management, maintenance, major repairs, service charges, other social housing costs – and aims to be sufficiently broad to be generally unaffected by different approaches to apportioning costs between these narrower cost headings. It excludes cost of sales and includes capitalised as well as expensed major repairs. It also excludes the main notional expenditure items – depreciation, impairment and bad debts – that are sensitive to different accounting policies and presentation of data within financial statements. For some providers, however, headline costs may include some 'non-cash' costs, for example past service costs associated with pension liability valuations under FRS102 accounting rules.

Units managed

Headline unit costs are calculated using closing social housing units managed, reported in audited accounts, for simplicity and transparency. For a minority of providers, this unit measure may materially affect reported unit costs – for example, if there is a divergence in units owned or managed or a change in stock over a financial year. Where these issues are material, providers may legitimately show adjusted headline unit cost figures as part of their own analysis.

Costs associated with different stock types

Certain stock types are associated with materially higher (or lower) costs than General Needs. This includes supported housing and housing for older people (HOP), reflected explicitly in the contextual information, but also other stock types including shared ownership or temporary social housing. Analysis to understand costs is likely to consider cost differences for distinct stock types, where these are material. While Global Accounts data on costs by stock type is only partial, many providers may hold additional accounts data that may help account for these differences.

Other exceptional issues

The headline metric may be influenced by exceptional costs for some providers. For example, in some cases costs may include significant lease costs or due to changes in accounting for pension deficits under FRS102. In such cases, where additional costs are material and genuinely exceptional, providers' analysis of unit costs is likely to involve accounting for their specific effect on headline unit costs.

Service charges

For simplicity, headline social housing costs aims to measure gross costs rather than costs net of income or other financial benefits from services provided or costs incurred. This means that gross service charge costs are included rather than costs net of any service charge income that may cover these costs. In addition to the fundamental idea of measuring gross costs, this approach means that the cost measure is more robust to different accounting approaches. A broader analysis of VfM may legitimately include these considerations of net income and margins on different expenditure lines.

Contextual data and peer group analysis

The regulator does not consider there to be a definitive 'correct' peer group for any provider. Contextual information in the published dataset may help inform peer selection. Headlines from the June 2016 regression analysis on the effect of different factors on costs, which may inform peer group analysis, are as follows:

- **Supported housing** is associated with significantly higher costs than for General Needs properties. Costs are likely to vary considerably depending on the type of accommodation and support offered. Additional costs associated with housing for older people are typically much more modest than for other supported housing.
- **Stock transfers** in the first six years following transfer have significantly higher average costs than other providers. This gap narrows considerably for stock transfers in years 7-11, and disappears after 12 years. Therefore many mature stock transfers might compare costs with Traditional providers.
- Cost differences between providers are broadly proportionate to the differences in **regional wages** (measured by average administrative and construction wages in the Annual Survey of Hours and Earnings).

These represent the measurable factors with the clearest statistical link to cost differences. However, there may be a range of other factors that could legitimately inform peer selection.

Data sources and notes

All **unit cost measures** are drawn exclusively from Global Accounts data submitted by providers to the regulator. Measures are defined as follows:

Headline Social Housing Cost CPU = (Management + Service charge costs + Routine maintenance + Planned maintenance + Major repairs expenditure + Capitalised major repairs expenditure for period + Other (SHL) costs + Other social housing activities: Other (Operating Costs) + Other social housing activities: Charges for Support Services (Operating Expenditure)) / Closing social housing units managed

Management CPU = Management / Closing social housing units managed

Service Charge CPU = Service charge costs / Closing social housing units managed

Maintenance CPU = (Routine maintenance + Planned maintenance) / Closing social housing units managed

Major Repairs CPU = (Major repairs expenditure + Capitalised major repairs expenditure for period) / Closing social housing units managed

Other Social Housing Costs CPU = (Other (SHL) costs + Other social housing activities: Other (Operating Costs) + Other social housing activities: Charges for Support Services (Operating Expenditure)) / Closing social housing units managed

Contextual information draws from several sources including the Statistical Data Return (SDR) submitted by providers to the regulator. These are defined as follows:

% Supported Housing (excl. Housing for Older People): number of supported housing, excluding Housing for Older People, units owned or managed divided by the total social housing units owned or managed (SDR data).

% Housing for Older People: housing for older people, including care home, units owned or managed divided by total social housing units owned or managed (SDR data).

Provider Type: An entity has been defined as an LSVT (stock transfer, commonly known as large scale voluntary transfer) if the total number of units transferred into the entity (on date of transfer) is over 50% of their current social stock, otherwise they have been defined as Traditional. A group has been defined as LSVT if all the constituent entities with accounts data are LSVTs, Traditional if none of the entities are classified as LSVT, and Mixed if the group includes both LSVT and Traditional entities. Transferred stock follows Homes and Communities (HCA) records of stock transfers.

Date of Largest Transfer: follows HCA records of stock transfers. Where there has been more than one transfer into an entity or group it gives the date of the largest transfer by tenanted stock.

LSVT Age: Uses the date of the largest transfer to band LSVT entities by age, as used in the unit cost analysis. The three bands used are < 7 years, 7-12 years & > 12 years.

Region with 50%+ of social stock owned: the region where a provider holds more than 50% of its owned social housing stock as reported in the 2015 SDR. If no such region exists then the provider is defined as "Mixed".

ASHE Regional Wage Index (England = 1): Index calculated using relative regional administrative and construction sector earnings from the Annual Survey of Hours and Earnings (ASHE) and information on social housing units owned or managed by region as reported in the SDR. The England average is 1.

Cost and contextual data for 2016 at both entity and group level is included in this release, and will be the primary unit costs dataset used by the regulator during 2017.

In addition, cost data from the 2015 Global Accounts dataset is provided alongside contextual data for entities only. This is the data shared with providers through letters in June 2016 and is provided for wider reference if required. This 2015 cost data does not reflect any restatements to bring data in line with FRS102 accounting rules.