



Homes &
Communities
Agency

Value for Money Metrics – Technical note

September 2017
Homes and Communities Agency



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Introduction

- 1.1 Alongside the proposed changes to the Value for Money Standard the regulator is proposing to introduce a separate document setting out a limited number of metrics to measure economy, efficiency and effectiveness on a comparable basis across the sector.
- 1.2 The Value for Money (VfM) metrics suite would provide a new tool for registered providers to demonstrate that they are making best use of their assets and resources to stakeholders, including tenants and the regulator. These metrics will not form part of the Standard itself. This technical note sets out the details of the range of metrics that the regulator could use, including the calculation of each measure, and the source of the data.
- 1.3 We recognise the sector's diversity and understand that no single set of metrics can capture all of the measures that matter to each individual association. The proposed changes to the VfM Standard would, subject to the outcome of the consultation launched on 27 September 2017, require registered providers to set their own strategic objectives and report on progress on these targets annually in their accounts. This approach would permit individual providers to report on their own bespoke targets, which reflect the individual needs of the organisation, and might include, for example: progress on particular development, regeneration or major repairs schemes; housing quality; or tenant satisfaction.
- 1.4 The proposed set of standard metrics defined by the regulator is intended to achieve the different, but complementary, objective of providing measures with wide applicability which permit comparison across the sector. In combination with each provider's own published strategic targets, these standard metrics will allow interested stakeholders to not only review the progress of each provider in terms of its own objectives, but also do so in the context of common performance measures that permit meaningful comparison with other organisations.
- 1.5 The regulator has therefore used a number of principles to select this range of measures. The regulator has sought to use existing regulatory data in order to minimise interference and potential burdens on providers. The proposed suite of VfM metrics is therefore restricted to data derived from registered providers' Annual Accounts regulatory returns – Financial Viability Assessment (FVA) only.

- 1.6 The regulator proposes to use FVA data as the basis of the metrics because it is derived from existing audited accounts¹. There would therefore be no additional data collection requirements for providers and all metrics are derived from data that is already in the public domain in providers' own accounts and the Global Accounts data-set. In devising the metrics, we have ensured that they can be calculated by all providers from existing data.
- 1.7 Whilst no range of measures can be completely exhaustive, the selection of metrics is intended to support understanding of a range of different components of Value for Money (economy, efficiency and effectiveness). Our role in relation to consumer regulation is limited by statute. Consequently the Value for Money metrics primarily focus on financial and output measures which can be derived from FVA returns that providers already submit to the regulator. The metrics include output measures alongside cost data, and measures of the efficiency with which providers use both their resources and their assets. This includes the degree of investment by registered providers to existing stock as well as new supply. The regulator recognises that providers will also have a range of other, often non-financial, measures to monitor their performance which they can also set out as part of their wider value for money reporting to stakeholders.
- 1.8 Registered providers' financial performance is based upon their activity across a range of business streams, including non-social housing activity in unregistered subsidiaries and joint ventures. Providing a full picture of the value for money of the provider's activity therefore involves taking a view across this full range of business streams. The majority of metrics are therefore set at group level and take account of non-social housing income and expenditure as well as social housing. However, there are a number of core activities common to all providers, principally social housing lettings. In order to permit like for like comparison on this core function, the headline social housing cost per unit metric is based on social housing activity only.

¹ The Financial Viability Assessment (FVA) regulatory return excludes the Statement of cashflows; as a result all proposed VfM metrics are non-cashflow based.

The Value for Money metrics

(Value codes²: **Negative**, **Positive**, **Either**)

2.1 The proposed definition of each metric is set out below.

Metric 1 – Reinvestment %

2.2 This metric looks at the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held³.

Measurement of VfM Cost Chain – **Efficiency**

Proposed definition

[Properties Acquired (total housing properties)

+ Development of new properties (total housing properties)

+ Works to Existing (total housing properties)

+ Capitalised Interest (total housing properties)

+ **Schemes completed (total housing properties)]**

Divided by

[Housing properties at cost (Period end)

+ Housing properties at valuation (Period end)

+ Housing properties at deemed cost (Period end)]

² Codes indicate where values are anticipated to be entered as positive, negative or of either value in the FVA17 return. For some fields the FVA will allow users to enter a different value to that anticipated.

³ This metric is not based on cashflow data given the limitations on data collected as part of the FVA regulatory return.

Metric 2 – New supply delivered %

- 2.3 The New supply metric sets out the number of new social housing and non-social housing units that have been acquired or developed in the year as a proportion of total social housing units and non-social housing units managed at period end.
- 2.4 It is proposed that registered providers will report on two New supply ratios:
- A) New supply delivered (Social housing units)
 - B) New supply delivered (Non-social housing units)

Measurement of VfM Cost Chain – Effectiveness

A) New supply delivered (Social housing units)

Proposed definition

[Total social housing units acquired or developed in-year

(Social rent general needs housing (excluding Affordable Rent), Affordable Rent general needs housing, social rent supported housing and housing for older people (excluding Affordable Rent), Affordable Rent supported housing and housing for older people, Affordable Home Ownership, care homes, other social housing units)]

Divided by

Total social housing units managed at period end ('social units' as defined in numerator)

Measurement of VfM Cost Chain – Effectiveness

B) New supply delivered (Non-social housing units)

[Non-social housing units acquired or developed in-year

(Outright sale, Market Rent, Other non-social housing)]

Divided by

Total non-social housing units managed at period end ('non-social units' as defined in numerator)

Metric 3 – Gearing %

2.5 This metric assesses how much of the adjusted assets are made up of debt and the degree of dependence on debt finance. It is often a key indicator of a registered provider's appetite for growth.

Note: Registered providers can be restricted by lenders' covenants and therefore may not have the ability in which to increase the loan portfolio despite showing a relatively average gearing result.

Measurement of VfM Cost Chain – **Efficiency**

Proposed definition

[Short term loans

+ Long term loans

+ Amounts owed to group undertakings

+ Finance lease obligations]

Divided by

[Housing properties at cost (Period end)

+ Housing properties at valuation (Period end)

+ Housing properties at deemed cost (Period end)]

Metric 4 – Earnings Before Interest, Tax, Depreciation, Amortisation, Major Repairs Included (EBITDA MRI) Interest Cover %

2.6 The EBITDA MRI interest cover measure is a key indicator for liquidity and investment capacity. It seeks to measure the level of surplus that a registered provider generates against interest payments (the measure avoids any distortions stemming from the depreciation charge).

Measurement of VfM Cost Chain – Efficiency

Proposed definition

[Operating surplus/(deficit) (overall)]

- Amortised government grant
- Grant taken to income
- + Interest receivable and other income
- Capitalised major repairs expenditure for period
- + Total depreciation charge]

Divided by

- [Capitalised interest in housing properties
- + Interest payable and financing costs]

Metric 5 – Headline social housing cost per unit

- 2.7 The unit cost metric assesses the headline social housing cost per unit as defined by the regulator⁴. The measure is unchanged from the metric used in the regulator's 2016 publication '[Delivering Better Value for Money](#)'.

Measurement of VfM Cost Chain – **Economy**

Proposed definition

[Management costs

- + Service charge costs
- + Routine maintenance costs
- + Planned maintenance costs
- + Major repairs expenditure
- + Capitalised major repairs expenditure for period
- + Other (social housing letting) costs
- + Development services⁵
- + Community / neighbourhood services⁴
- + Other social housing activities: Other (operating expenditure)
- + Other social housing activities: charges for support services (operating expenditure)]

Divided by

Total social housing units managed at period end

⁴ The headline social housing cost per unit as defined by the regulator is set out in the [Delivering better value for money: understanding differences in unit costs - summary report](#)

⁵ Accounting Direction 2015 requires material items of social housing activity to be separately identified. Since we published the Headline social housing cost per unit definition the 'Other social housing activities - Other' line included within the measurement has since been disaggregated. This will enable stakeholders to distinguish costs incurred for activities such as Development services and Community services whilst still maintaining a comparable headline social housing cost.

(Social rent general needs housing (excluding Affordable Rent), Affordable Rent general needs housing, social rent supported housing and housing for older people (excluding Affordable Rent), Affordable Rent supported housing and housing for older people, Affordable Home Ownership, care homes, other social housing units)

Metric 6 – Operating Margin %

- 2.8 The Operating Margin demonstrates the profitability of operating assets before exceptional expenses are taken into account. Increasing margins are one way to improve the financial efficiency of a business. In assessing this ratio, it is important that consideration is given to registered providers' purpose and objectives (including their social objectives). Further consideration should also be given to specialist providers who tend to have lower margins than average.
- 2.9 It is proposed that registered providers will report on two Operating Margin ratios:
- A) Operating Margin (social housing lettings only)
 - B) Operating Margin (overall)

Measurement of VfM Cost Chain – **Efficiency**

A) Operating Margin (social housing lettings only)

Proposed definition

Operating surplus/(deficit) from social housing lettings

Divided by

Turnover from social housing lettings

Measurement of VfM Cost Chain – **Efficiency**

B) Operating Margin (overall)

Proposed definition

Operating surplus/(deficit) (overall)

Divided by

Turnover (overall)

Metric 7 – Return on capital employed (ROCE)

2.10 This metric compares operating surplus to total assets less current liabilities and is a common measure in the commercial sector to assess the efficient investment of capital resources. The ROCE metric would support registered providers with a wide range of capital investment programmes.

Measurement of VfM Cost Chain – **Efficiency**

Proposed definition

[Operating surplus/(deficit) (overall)

+ Gain/(loss) disposal fixed assets

+ Share of operating surplus/(deficit) in joint ventures or associates]

Divided by

Total assets less current liabilities

2.11 We would welcome your feedback on the proposed selection of metrics and their calculation. In particular, we would welcome views on whether the proposed suite of measures captures the key aspects of performance, or whether there are other measures, derived from FVA data, that should be included instead.

2.12 All responses should clearly set out:

- I. Which metric you are referring to
- II. Whether you agree/disagree with the measure set out for the metric
- III. If you disagree, which other measure would you use that can be derived from the FVA data?

2.13 If you have feedback which you would like us to take into account before we publish the final version of the metrics, please send it to us by **22 November 2017**.

2.14 Please email your response to the following email address:
vfmmetricsfeedback@hca.gsi.gov.uk.

2.15 Written responses can be sent to:

Referrals and Regulatory Enquiries

Homes and Communities Agency – The Regulator of Social Housing

1st Floor

The Lateral

8 City Walk

Leeds

LS11 9AT

Annex A: References to FVA 2017

Metric	FVA17 Field (Value codes: Negative , Positive, Either)	FVA17 Part	FVA17 Line	FVA17 Column
1) Reinvestment	[Properties Acquired (total housing properties)	E: Notes 1	37	7
	+ Development of new properties (total housing properties)	E: Notes 1	38	7
	+ Works to Existing (total housing properties)	E: Notes 1	39	7
	+ Capitalised Interest (total housing properties)	E: Notes 1	40	7
	+ Schemes completed (total housing properties)]	E: Notes 1	41	7
	<i>Divided by</i>			
	[Housing properties at cost (Period end)	C: SOFP	2	1
+ Housing properties at valuation (Period end)	C: SOFP	3	1	
+ Housing properties at deemed cost (Period end)]	C: SOFP	4	1	

Metric	FVA17 Field (Value codes: Negative , Positive, Either)	FVA17 Part	FVA17 Line	FVA17 Column
2) New supply delivered (social housing and non-social housing)	<p>A) New supply delivered (Social housing units)</p> <p>[Total social units acquired or developed in-year (Social rent general needs housing (excluding Affordable Rent), Affordable Rent general needs housing, social rent supported housing and housing for older people (excluding Affordable Rent), Affordable Rent supported housing and housing for older people, Affordable Home Ownership, care homes, other social housing units)]</p> <p><i>Divided by</i></p> <p>[Total social housing units managed at period end]</p> <p>B) New supply delivered (Non-social housing units)</p> <p>[Non-social housing units acquired or developed in-year (Outright sale, Market Rent, Other non-social housing)]</p> <p><i>Divided by</i></p> <p>[Total non-social housing units managed at period end]</p>	<p>E: Notes 1</p> <p>E: Notes 1</p> <p>E: Notes 1</p> <p>E: Notes 1</p>	<p>23</p> <p>23</p> <p>27</p> <p>27</p>	<p>2</p> <p>6</p> <p>2</p> <p>6</p>
3) Gearing	<p>[Short term loans + Long term loans + Amounts owed to group undertakings + Finance lease obligations]</p> <p><i>Divided by</i></p> <p>[Housing properties at cost (Period end) + Housing properties at valuation (Period end) + Housing properties at deemed cost (Period end)]</p>	<p>C: SOFP</p> <p>C: SOFP</p> <p>C: SOFP</p> <p>C: SOFP</p> <p>C: SOFP</p> <p>C: SOFP</p> <p>C: SOFP</p>	<p>19</p> <p>26</p> <p>27</p> <p>28</p> <p>2</p> <p>3</p> <p>4</p>	<p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p> <p>1</p>

Metric	FVA17 Field (Value codes: Negative , Positive, Either)	FVA17 Part	FVA17 Line	FVA17 Column
4) EBITDA MRI Interest Cover	[Operating surplus/(deficit) (overall) - Amortised government grant - Grant taken to income + Interest receivable and other income - Capitalised major repairs expenditure for period + Total depreciation charge] <i>Divided by</i> - [Capitalised interest in housing properties + Interest payable and financing costs]	B: SOCI D: SHL Note D: SHL Note B: SOCI F: Notes 2 F: Notes 2 E: Notes 1 B: SOCI	4 4 5 9 2 3 96 10	1 4 4 1 1 1 1 1
5) Headline social housing cost per unit	[Management costs + Service charge costs + Routine maintenance costs + Planned maintenance costs + Major repairs expenditure + Capitalised major repairs expenditure for period + Other (social housing letting) costs + Development services + Community/neighbourhood services + Other social housing activities: Other (operating expenditure) + Other social housing activities: charges for support services (operating expenditure)] <i>Divided by</i> Total social housing units managed at period end	D: SHL Note D: SHL Note D: SHL Note D: SHL Note D: SHL Note F: Notes 2 D: SHL Note E: Notes 1 E: Notes 1 E: Notes 1 E: Notes 1 E: Notes 1	9 10 11 12 13 2 17 3 4 5 2 23	4 4 4 4 4 1 4 3 3 3 3 6

Metric	FVA17 Field (Value codes: Negative , Positive, Either)	FVA17 Part	FVA17 Line	FVA17 Column	
6) Operating Margin	A) Operating Margin (social housing lettings) [Operating surplus/(deficit) (social housing lettings) <i>Divided by</i> Turnover from social housing lettings]	D: SHL Note	19	4	
		D: SHL Note	8	4	
		B) Operating Margin (overall) [Operating surplus/(deficit) (overall) <i>Divided by</i> Turnover (overall)]	B: SOCI	4	1
		B: SOCI	1	1	
7) Return on capital employed	[Operating surplus/(deficit) (overall) + Gain/(loss) disposal fixed assets + Share of operating surplus/(deficit) in joint ventures or associates] <i>Divided by</i> Total assets less current liabilities	B: SOCI	4	1	
		B: SOCI	5	1	
		B: SOCI	8	1	
		C: SOFP	25	1	