



Regulator of  
Social Housing

# 2018 Global Accounts

## annex

### Value for Money metrics



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## Executive summary

- Providers have reported their performance on the regulator's Value for Money metrics<sup>1</sup> for the first time in their March 2018 accounts and the regulator has now published individual provider data alongside the Global Accounts data set.
- Overall, the sector has begun to engage effectively with the requirements of the new Value for Money Standard<sup>2</sup>, with the majority of providers reporting against all of the metrics.
- However, there were some inconsistencies in individual providers' reporting. It is important that providers report on a consistent basis, as set out in the regulator's metrics technical note, to support transparency and comparability across the sector.
- Unsurprisingly, there is a range of reported performance across the sector, with very different figures for particular sub-groups such as supported housing providers and early year Large Scale Voluntary Transfers (LSVTs). It is important that Boards understand their organisation's performance both in the context of the sector as a whole, and that of comparable peers.
- The regulator will use individual providers' metrics in order to support its regulation of the sector and to identify issues where it may need to seek further assurance through regulatory engagement.
- The 2018 figures will also provide a baseline for annual monitoring of trends in sector performance.

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<sup>1</sup> <https://www.gov.uk/government/publications/value-for-money-metrics-technical-note>

<sup>2</sup> <https://www.gov.uk/guidance/regulatory-standards>

## The 2018 Value for Money Standard

1. In April 2018, the Regulator of Social Housing introduced a new Value for Money Standard<sup>3</sup> and accompanying Code of Practice<sup>4</sup>. The Standard introduced a requirement for providers to publish performance against their own Value for Money targets, and a series of common metrics set by the regulator. Following extensive engagement with the sector, the regulator defined these metrics in the publication Value for money metrics - technical note feedback and response<sup>5</sup> (with Annex to FVA lines).
2. Providers are expected to publish their performance on these metrics in their annual accounts. For most providers, this means that their 2017-18 accounts contained the first set of reporting according to the requirements of the new Standard. A small minority of providers, with unusual financial year ends, have yet to publish their first set of metrics reporting.
3. One of the regulator's key objectives in defining a set of standard metrics was to support transparency and allow providers to analyse their performance alongside that of their peers on a comparable basis. To support this objective, the regulator has now published the metrics for all providers with more than 1,000 properties alongside the 2018 Global Accounts data set<sup>6</sup>. For consistency, the metrics for individual providers have been calculated on the basis set out in the regulator's metrics technical note (with Annex to FVA lines), using the FVA electronic accounts data submitted by providers.
4. This publication summarises the metrics data for the sector as a whole and segments the sector according to some of its key characteristics (such as supported housing stock, transfer status, and geographical location). It also provides commentary on some of the key themes emerging from the data.

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<sup>3</sup> <https://www.gov.uk/guidance/regulatory-standards>

<sup>4</sup> <https://www.gov.uk/government/publications/value-for-money-code-of-practice>

<sup>5</sup> <https://www.gov.uk/government/publications/value-for-money-metrics-technical-note>

<sup>6</sup> <https://www.gov.uk/government/publications/2018-global-accounts-of-private-registered-providers>

## Providers' reporting in the 2018 accounts

5. The regulator's analysis of providers' published reporting and the electronic accounts data (FVAs) which form the basis of the Global Accounts suggests that the sector as a whole has begun to engage effectively with the requirements of the new Standard.
6. The majority of large providers (those with more than 1,000 properties) published data for the full range of metrics. Only a small minority of providers failed to publish data for all of the metrics and where this was the case, the data was missing for only a minority of the metrics.
7. Overall, the majority of large providers have calculated the metrics on the precise basis set out in the regulator's technical note. This should ensure consistency in the basis of the calculations for the majority of providers, supporting the aim of comparable reporting across the sector.
8. However, a minority of the reported metrics did not appear to have been calculated on the basis set out in the technical note, leading to some inconsistencies between the figures reported by the providers themselves in their published accounts, and the metrics as calculated from their FVA data and published by the regulator.
9. These inconsistencies were more common on some metrics than others. For example, there were very few cases where the provider's published Return on Capital Employed (ROCE) measure differed from that calculated from the FVA. Disparities were more common on the debt-based metrics (gearing and EBITDA-MRI interest cover) and on headline social housing unit cost.
10. Providers have a wide variety of different gearing measures reflected in their own loan covenants. Some providers may have reported their gearing figure on the basis of their tightest balance sheet covenant, rather than the specific basis used in the regulator's Value for Money metric.

11. The greatest number of disparities between providers' reported data and that published by the regulator alongside the Global Accounts related to headline social housing cost per unit. The reasons for differences in providers' reporting appear to vary. However, most commonly it appears that some providers have excluded particular types of social housing, for example supported housing, and the associated costs from the calculation. This means that their reported figures are not directly comparable with those of organisations with a similar stock profile who have reported on the basis set out in the regulator's technical note.
12. If providers are reporting on a wide range of different bases, then this clearly undermines the overall objectives of transparency and comparability. All providers are required to follow the calculations in the technical note and, in their 2019 reporting should not seek to make any adjustments to the metrics themselves.
13. The regulator recognises that the nature of a provider's stock will influence their reported metrics. More detailed analysis, including regression analysis, of the key factors that can influence providers' reported metrics performance is set out in the publication Value for Money metrics – summary report<sup>7</sup>. The Value for Money Standard gives providers the opportunity to publish supplementary data and narrative to improve readers' understanding of the factors influencing performance on the reported metrics. The regulator has also published key contextual information on the factors that we know can influence reported performance (such as supported housing stock, and geographical location) alongside the Global Accounts data set.

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<sup>7</sup> <https://www.gov.uk/government/publications/value-for-money-summary-and-technical-reports>

## Key themes and issues

14. In order to help drive better reporting performance in 2019, this section sets out key issues and themes that the regulator has identified from its review of providers' reporting in the statutory accounts. The regulator did not prescribe how the metrics should be displayed in the accounts, giving providers a degree of presentational flexibility. The regulator hopes that this commentary will help Boards with future reporting.
15. The vast majority of providers presented the metrics in a table format which clearly set out the VfM metrics and the sub-metrics. Where alternative measures were reported alongside the regulator's required metrics the difference in measures were clearly denoted. While it was not a requirement to undertake peer analysis for providers' reporting in the accounts for the period ended 31 March 2018, some providers also took the opportunity to compare the metrics to peers where they were able to do so.
16. Other reporting mechanisms included graphs and narrative formats. While some charts were clearly defined, for others it was not always transparent what the provider was presenting or how performance could be measured against targets. The most comprehensive graphs were supported by a clear statement of the underlying numbers in a narrative format.
17. Some providers also took the opportunity to re-visit their strategic objectives and align them to the new or enhanced elements of the VfM Standard. Furthermore they also presented commentary on how they performed against their own targets and against the metrics set out by the regulator. This demonstrated how the organisation approached the delivery of VfM, and applied its resources and assets to the delivery of its fundamental objectives. The reporting was also succinct and focused on reasons for differences from previous years' performance and from their peer group.

**Table 1: Summary of sector metrics (for providers owning / managing more than 1,000 homes)**

Quartile data		No of providers	% of social units owned	Reinvestment (%)	New supply (social) (%)	New supply (non-social) (%)	Gearing (%)	EBITDA MRI interest rate cover (%)	Headline social housing CPU (£K)	Operating margin (social) (%)	Operating margin (%)	Return on capital employed (ROCE) (%)
All returns	Upper quartile	230	100.0	8.7	2.3	0.07	53.1	263	4.50	37.1	34.1	5.4
	Median			6.0	1.2	0.00	42.9	206	3.40	32.1	28.9	4.1
	Lower quartile			3.9	0.5	0.00	33.1	154	3.01	25.5	22.7	3.3
Provider sub-set		Median										
Cost factor	LSVT < 7 yr	6	1.8	11.7	0.4	0.00	28.2	183	3.94	26.1	26.2	5.2
	LSVT 7-12 yrs	18	6.6	8.7	0.9	0.00	32.4	237	3.31	31.5	30.5	6.4
	London	30	12.5	5.5	1.0	0.00	35.8	181	5.75	27.3	25.9	3.2
	Supported housing specialist	16	1.6	5.5	0.9	0.00	17.3	232	8.93	12.1	5.5	2.8
	Housing older people specialist	9	3.2	3.7	0.3	0.00	39.2	229	5.61	22.8	21.1	3.1
Size (Social units owned)	> 30,000	17	32.7	5.8	1.4	0.21	45.2	190	3.91	33.2	27.9	4.0
	20,000 - 29,999	21	20.4	6.0	1.0	0.05	44.4	216	3.31	34.3	29.1	3.9
	10,000 - 19,999	43	23.0	6.7	1.6	0.00	48.5	187	3.34	34.6	29.5	4.6
	5,000 - 9,999	58	15.1	6.3	1.2	0.00	44.0	224	3.31	33.1	30.8	4.8
	2,500 - 4,999	42	6.0	7.3	1.2	0.00	47.0	185	3.55	30.0	27.8	4.0
	< 2,500	49	2.8	4.2	0.7	0.00	30.5	225	4.52	25.2	24.6	3.3



## Sector analysis

18. Table 1 shows the distribution of 2018 performance on the regulator's VfM metrics, showing the sector median and upper and lower quartiles for each of the metrics as well as the median figures for distinctive key sub-sectors, such as supported housing providers, early years Large Scale Voluntary Transfer organisations, and organisations with the majority of their stock in London. Table 1 also shows the metrics data for organisations of different sizes. It is important to understand that the upper and lower quartile figures represent the range for each individual metric. There is not a cohort of 'upper quartile' or 'lower quartile' providers across the full range of metrics. Individual organisations will fall into different quartiles from one metric to another.

19. This summary information is intended to help registered providers and other interested stakeholders to contextualise the performance of individual organisations and to benchmark organisations with particular characteristics.

20. The analysis is based on data from 230 registered providers' annual accounts (FVAs).<sup>8</sup> At a sector level the table shows that there continues to be a wide range of performance across all the metrics. For example, headline social housing costs per unit are £3,010 per property in the lowest quartile but rise to £4,500 per property in the most expensive quartile. Reinvestment in new and existing stock ranged from 3.9% of the value of the existing stock for the lowest quartile to 8.7% for the highest quartile. Some of the variation can be explained by measurable factors which are set out in the Value for Money metrics Summary and Technical regression reports<sup>9</sup> published in September 2018. However, not all of this variation can be explained by measurable factors, and much of the variation will stem from the business decisions taken by providers themselves.

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<sup>8</sup> The analysis in this report is based on the regulator's value for money metrics measurements. There are therefore in some cases differences in calculation from measures used in the Global Accounts publication. For example, responding to feedback from the sector, the VfM gearing metric is measured on a net debt basis, unlike the measure of gearing used in the Global Accounts, which does not net off cash and cash equivalents.

<sup>9</sup> <https://www.gov.uk/government/publications/value-for-money-summary-and-technical-reports>

21. The pattern of performance at a sector level is broadly consistent with that seen in 2017, as shown in the Summary report published in September 2018; however, a number of trends can be discerned. Some of these are outlined in more detail in the 2018 Global Accounts<sup>10</sup>. There has been an increase in headline social housing cost per unit across all quartiles (with the median rising from £3,290 per unit in 2017 to £3,400 in 2018) due to increases in both management and maintenance expenditure. There has been a concomitant fall in operating margin, as costs rise, but income comes under pressure from the continuing rent reductions. The median level of reinvestment has also increased from 5.6% in 2017 to 6.0% in 2018.

22. The debt-based metrics provide some indication of a registered provider's financial capacity. Gearing measures debt as a percentage of the total asset base on a net debt basis. It continues to show a wide range between the upper quartile and lower quartile. Overall, the decrease in the upper quartile compared to 2017 is driven by an increase in asset values rather than a reduction in debt. The upper quartile of registered providers is more highly geared, which generally reflects their risk appetite. In contrast, some of those in the lower quartile may be restricted by lending covenants or the capacity to service new loans limiting them from taking on additional debt.

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<sup>10</sup> <https://www.gov.uk/government/publications/2018-global-accounts-of-private-registered-providers>

## Sub-sector analysis

23. There continue to be clear differences in the reported figures across different sub-sectors. These differences are largely intuitive and are broadly consistent with the patterns seen in previous years. There are some notable changes in the figures at a sub-sector level compared to previous years. Where this is the case, it is noted and explained in the following commentary.

24. At a sub-sector level there is a noticeable difference in performance on a small number of the VfM metrics, with the most distinctive characteristics being evident for some groups including LSVTs, supported housing providers, and registered providers with either more than 30,000 units and fewer than 2,500 units.

## Supported housing providers

25. Although the majority of social landlords own or manage some supported housing, for a minority this activity is a very material part of their business. For the purposes of this analysis, we have defined supported housing providers as those that have supported housing that accounts for more than 30% of their total housing stock. These registered providers have higher costs and lower operating margins than more traditional housing providers, primarily due to the broader range of services that they provide.

26. These high costs and lower margins tend to mean that these organisations are less able to support debt to finance investment activity. As a result they tend to have lower gearing than organisations with less supported housing and consequently their reinvestment and new supply metrics remain below the sector median.

27. The supported housing sub-group includes a small but growing number of lease-based registered providers. The lease-based registered providers have a distinctive business model compared to other registered providers in that they own little or no housing stock and have low levels of debt. This has a significant impact on the reinvestment, gearing, EBITDA MRI interest rate cover and ROCE metrics. However, because there is still only a small number of such organisations with 1,000 or more properties they have not yet had a dramatic effect on the reported metrics for the wider supported housing sub-sector or the sector as a whole.

28. There has been one notable change in the reported metrics for the supported housing sub-sector; an increase in the median cost per unit from £5,940 per unit (already well above the sector average) to £8,930 per unit. This increase has not been driven by widespread large cost increases amongst existing supported housing providers, or by the inclusion of the lease-based providers. The regulator's analysis suggests that the increased median is partly due to a change in the composition of the sub-sector with a small number of other providers with extremely high levels of supported housing moving into full regulatory engagement for the first time and partly due to an accounting change by an existing provider.

## Housing for older people providers

29. Housing for older people providers have similar characteristics to supported housing providers. Their costs tend to be higher than the sector median, albeit not to the same extent as the supported housing specialists, with a median unit cost of £5,610 per unit. They similarly have lower operating margins than the sector as a whole and lower gearing. This group of providers also has lower levels of reinvestment (3.7%) than the sector median. This reinvestment is primarily in the existing stock, rather than in new supply. There was a much higher reported reinvestment figure in 2017; however this was driven by a small number of providers with large major repair and development programmes, which have not continued at the same level in 2018.

## Large Scale Voluntary Transfers

30. Overall, the performance of the LSVT organisations continues to be in line with expectations. They generally have higher reinvestment and headline social housing unit costs than the sector average as they fulfil post-transfer works on their existing housing stock. In addition, they also tend to have low operating margins due to lower rental income and focus on meeting transfer promises to tenants. Their high level of investment in existing stock tends to preclude investment in new housing supply, which is much lower than the sector average. In comparison to older LSVT organisations, LSVTs that are less than seven years old continue to have low gearing rates as they had lower initial valuations at the time of transfer and have not yet reached peak debt.
31. The characteristics of the LSVT sub-groups have changed over the past year due to several organisations maturing and passing 12 years since transfer (beyond which point LSVTs tend to have similar characteristics to traditional housing associations). Some other organisations have moved into the 7-12 year old LSVT sub-group. These changes in composition of the sub-group have led to changes in aggregate sub-group performance, but the fundamental picture is consistent with that seen in previous years.

## Variations according to size of provider

32. There is not a straightforward relationship between size and performance on the VfM metrics. Each size band in the summary table contains a range of different provider types and there is no clear relationship between size and reported performance on any of the measures. There are a number of notable changes in the figures compared to past years, particularly for the very largest organisations. This is in part driven by a change to the composition of the group as a result of a small number of mergers and de-mergers that occurred in the year.

33. For organisations with more than 30,000 properties, reinvestment as a percentage of the existing stock (5.8%) is close to the sector median (6.0%). New supply – social is above the sector median (1.2%) at 1.4% of existing stock. This is a change from the 2017 data when new supply in this group was below the sector median. This may have been a one-off result, driven by the profiling of capital grant programmes, and related to the high level of merger activity amongst the largest providers in 2017. This group of providers continues to be the only one to report a significant level of non-social housing supply.
34. In addition, the headline social housing cost per unit increased to £3,910. This is in part driven by the change in the composition of this sub-group but is also due to a significant increase in major repairs expenditure by a limited number of registered providers.
35. The other size category with distinctive average metrics is the group of providers with fewer than 2,500 units. The reported performance of this group is significantly affected by registered providers with high proportions of supported housing and housing for older people.
36. During 2018 this sub-sector grew by 23% due to the addition of lease-based supported housing registered providers and registered providers with significant supported housing that have moved into the regulatory framework for larger providers.

## Regulatory approach and next steps

37. The regulator has now published the 2018 metrics for individual providers alongside this analysis of the performance of the sector as a whole, and key sub-sectors. This should provide Boards, and other interested stakeholders, with valuable information to compare their performance with that of similar organisations and the sector as a whole. The data cannot provide a complete picture of the performance of each organisation, and should be seen in the context of data on providers' own business plan targets, including those for example on social objectives. However, the regulator's metrics do provide a comparable set of core financial and output measures which are of relevance to the vast majority of providers.
38. The 2018 figures will also provide a baseline for annual monitoring of trends in sector performance.
39. The regulator does not seek to determine how providers should use their assets or resources, or set a particular 'right' level of cost. These are matters for Boards to decide in the context of the strategic objectives of the business. However, the regulator will seek assurance that providers are complying with the Value for Money Standard<sup>11</sup> and are working to optimise the use of their resources and assets to achieve those objectives.
39. The regulator will use the metrics to identify cases where the figures suggest that we may need to engage with a provider, to seek further assurance that the organisation is meeting the requirements of the Value for Money Standard.
40. From 2019, Boards are required to comply with the full reporting expectations set out in 2.2a and 2.2b of the Value for Money Standard. This includes how their organisation's performance compares to their peers.

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<sup>11</sup> <https://www.gov.uk/guidance/regulatory-standards>



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