

Revision of Housing Corporation Assessments: Consultation paper

March 2007

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Introduction

The Housing Corporation introduced Housing Corporation Assessments (HCAs) in 2002 alongside publication of the Regulatory Code. This review of the development aspect of HCAs reflects changes in the operating environment that housing associations¹ are working in, together with changes in both the Housing Corporation and the Government's expectations of the social housing sector.

We welcome comments on the general approach proposed in this paper as well as on the specific proposals.

Where respondents do not agree with the proposed approach, we welcome alternative suggestions which work within the Corporation's intentions as set out in the Background section of this paper.

This consultation paper was published on 16 March 2007. We would like to receive responses by 11 June 2007.

¹ For the sake of readability, the term 'housing association' is used throughout this consultation paper as a generic term for all registered social landlords, including housing trusts, co-operatives and housing companies.

Background

In 2002 the Housing Corporation published the Regulatory Code. The Code sets out our expectations that housing associations are:

- viable;
- properly governed; and
- properly managed.

More detail on our Regulatory Code expectations is included in Annex 1.

Alongside the Regulatory Code the Housing Corporation introduced the Housing Corporation Assessment (HCA) – a public expression of our overall judgement of an association or group.

Each association with more than 250 dwellings receives an HCA, which is updated when there has been a material change, and is reviewed from time to time. Judgements are expressed on the basis of a traffic-light system underpinned by straplines. More detail on the traffic lights and straplines currently used in each part of the HCA is included in Annex 2.

The HCA reflects not just our judgement on the three aspects of the Regulatory Code. Where an association is in receipt of Social Housing Grant (SHG), an assessment of performance against associated targets on forecasting, programme delivery and quality of housing, is made in the Development section of the HCA.

There are a number of factors since the introduction of HCAs which mean that it is

appropriate for the Corporation to review the content and emphasis of HCAs.

In April 2005 we introduced a new style of regulation based on a risk assessment of all lead regulated associations. Both that change in regulatory approach, and the proposals set out in this paper, reflect the Corporation's intention to focus its attention on those associations which have the potential to make the biggest impact in the creation and maintenance of sustainable neighbourhoods and communities.

The regulation of housing associations is currently subject to an independent review. Therefore we are not at this stage proposing any changes to the viable, properly governed and properly managed traffic lights and straplines in HCAs.

Once the conclusions of the review of regulation are known we will review our overall approach to the publication of HCAs. One specific aspect which we will need to consider is the appropriateness of the HCA in its current format to those associations which we have assessed as low risk, and with which we consequently have little regulatory contact.

We are therefore focusing in this consultation paper on proposals to modernise the Development section of the HCA, turning it into a more holistic Investment HCA to reflect changes in the strategic environment that associations are operating within, and recognising that stakeholders, in considering how housing associations choose to use their

resources, are not interested solely in the use that associations make of Housing Corporation funding.

We would want to make clear from the outset that these proposals do not represent any attempt to dictate to associations how they should use their financial capacity. That is a decision for the boards of associations. Rather, it is an attempt to join up the information we have about asset management strategies and investment plans so that we can recognise the value of the diverse contributions that so many associations make to the neighbourhoods in which they work; and which a narrow focus on Social Housing Grant precludes.

The changes we propose in this paper build on information we already have about associations' activities. We do not envisage collecting any further returns to enable us to carry out these assessments. We are therefore confident that the proposals we outline will not lead to any increase in the overall administrative burden placed on associations.

The changing context

Neighbourhoods and communities

The Government published its Sustainable Communities Plan in 2003, and subsequently published five-year plans, Sustainable Communities: Homes for All, and Sustainable Communities: People, Places and Prosperity in 2005.

The Government recognises that its vision for sustainable communities can only become reality through inclusive working across Government and with partners in the private and voluntary sectors.

Over recent years housing associations have become increasingly involved in the neighbourhood and community agendas, taking on responsibilities far beyond the traditional housing management role. This was recognised by the National Housing Federation (NHF) when it launched iN Business for Neighbourhoods, saying, 'We are in business for neighbourhoods. We put our energy in creating places people want to live. We invest in a range of services as well as homes. We are independent social businesses, with our finger on the pulse of local needs.'

In October 2006, the Corporation published its Neighbourhoods and Communities Strategy, by which we aim to:

- promote the active engagement of housing associations in the development and delivery of local and neighbourhood strategies;
- encourage housing associations to contribute further to the sustainability of the

communities they work within, extending beyond their core housing role; and

- develop greater community and resident involvement in the work of housing associations, empowering people to be able to choose to engage actively in the decisions that affect them.

The strategy sets out a number of clear expectations that we have of associations and the actions they should be taking to work towards developing and maintaining successful, mixed, inclusive, sustainable neighbourhoods and communities. Our ambition is to support and encourage associations who are already active in their local areas. We do not aspire to stifle innovation by increasing our regulatory oversight in respect of diverse community activities or restricting associations' ability to engage at a local level. We believe that the change of approach signalled in this paper recognises the value we and associations place on investment in these activities. In this context an approach which only focuses on the Social Housing Grant investment in an area is increasingly too limited and gives a distorted picture of an association's overall investment performance.

Housing supply

The Barker Review on Housing Supply outlined the scale of unmet demand for housing. It identified the need for 40,000 new social rented homes each year together with up to 20,000 further homes a

year to reduce the number of people still living in temporary accommodation.

In 2005-06 the Corporation's funding produced 18,637 rented homes and 16,074 low cost home ownership homes. The Corporation is funding 49,000 new homes over the two-year period of the 2006-08 National Affordable Housing Programme – 30% more homes compared with 2004-06 for only 15% more resources. Despite that excellent progress however, a significant step-change in supply is needed to meet the Barker aspirations.

Efficiency

The Government's Spending Review 2004 (SR2004) identified a total of £20 billion of efficiency savings in the provision of public services by 2008. Housing associations were tasked with delivering £355 million of savings by 2008. £160 million of those savings are to be delivered through the procurement of new supply.

The sector is well on the way to delivering the new supply savings required by SR2004, achieving actual efficiency gains in 2005-06 of £392 million. Key drivers behind this performance have been:

- increased competition through the development of a mixed economy of providers;
- a focus on value-for-grant in the assessment of investment bids;
- the development of our partnering approach to ensure funding goes only to the best developers;

Efficiency gains expected from HAs (£m)

	2005-06	2006-07	2007-08
New supply	130	140	160
Capital works	2	30	60
Management and maintenance	35	60	80
Commodity goods	10	30	55
Total	177	260	355

- improved supply-chain management on the part of developers; and
- increased leverage of private finance, e.g. with expanded Open Market HomeBuy.

But the likely efficiencies required by the Comprehensive Spending Review 2007 (CSR 2007) will require the Housing Corporation and its partners to work even more closely together.

In September 2006 the Corporation set out its emerging thinking in Future Investment Approaches, a discussion paper setting out how we intend to modernise our processes, engage with the market on a more regular basis and provide longer-term funding on some strategic sites, so that we can help to meet the challenges set out in the Barker Review. Future Investment Approaches recognised that the investment funding framework and requirements must align with developing organisations' business models.

Towards the end of last year we published Future Investment Approaches: Towards the 2008-10 Bid

Round, explaining how we intend to modernise our processes and our relationships with delivery organisations, and use a range of new funding tools to meet different needs, in the light of responses to the discussion paper.

But as with SR2004, the efficiency requirements flowing from CSR 2007 will not just be about new supply, hence our need to adopt a joined-up approach to our understanding of associations' investment activities.

Working with local authorities

Local authorities have a key role to play in developing strategies including housing, choice, homelessness, anti-social behaviour and community cohesion. At the same time local authorities own substantial land assets and the effective use of those assets is crucial to the delivery of the Corporation's investment programme.

We are committed to developing our already strong relationships with local authorities. We are considering how local authorities can feed into our assessments of associations, not just in terms of how they meet the expectations set out in the Regulatory Code, but also how associations' asset management and development strategies contribute to community and neighbourhood cohesion and sustainability.

Property disposals

Recent years have seen housing associations becoming much more active in terms of property disposals. Some disposals, e.g. shared-ownership staircasing, right to buy, right to acquire, are not within an association's control. Other disposals are undertaken on a voluntary basis, and the level of those disposals has been driven by a number of factors including the state of the housing market, stock rationalisation, the introduction of the Decent Homes Standard, and in some cases financial viability concerns.

Property disposals have therefore become a subject of significant debate and, on occasion, political concern. We recognise that associations sometimes come under pressure to retain properties where retention would not be in the best interests of the organisation. It is important that the decisions that associations are taking on disinvestment – whether that be by way of sale, transfer or demolition – are made in the context of an overarching asset-management strategy. Such a strategy would also incorporate the association's approach and plans on new investment and reinvestment.

Financial viability and financial capacity

It is one of the basic requirements of associations – set out in the Regulatory Code – that they ‘operate viable businesses, with adequate recourse to financial resources to meet their current and future business and financial commitments, based on a coherent and robust business plan, fulfilling their loan-agreement covenants’.

Over the last few years the Corporation’s assessment of associations’ financial viability has become more sophisticated. In 2002 we introduced our Financial Analysis Framework which has now been incorporated in How We Regulate 5: Viability.

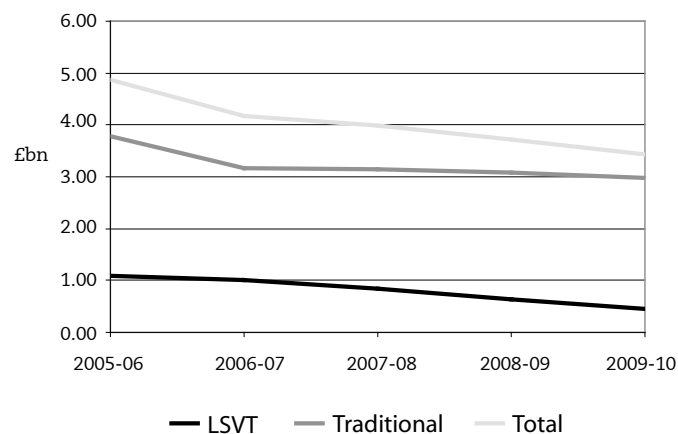
The approach taken in the Financial Analysis Framework is reflected in the Capacity Model which we developed in partnership with the NHF and which we used for the first time as part of our assessment of bids for the 2006-08 National Affordable Housing Programme.

We recognise that there is a potential tension between financial viability and the exploitation of financial capacity. Housing associations are independent organisations, and it is for the board and management team of an association to decide the appropriate balance for them in terms of exploiting financial capacity without jeopardising the financial viability of the organisation.

Our Annual Review of Housing Association Private Finance said that as at 31 March 2005, housing

associations had drawn down £25.6 billion, with £10.3 billion of facilities agreed but not drawn. In financial forecasts submitted to the Corporation in 2005, associations were estimating drawing down an additional £20.2 billion of private finance by 31 March 2010.

Forecast private finance requirements 2005-10



At the sector and sub-sector level we have undertaken an analysis of the financial capacity of the sector, based on associations’ own financial forecasts. We have concluded that there is a considerable amount of capacity for a significant number of associations to take on additional debt, over and above the amounts they are forecasting, and indeed to deliver new development at grant rates lower than those allocated through the 2006-08 National Affordable Housing Programme. We have drilled down our analysis at the association level, initially conducting a small number of case studies with individual associations, and over the next few

months we will continue to roll out our analysis of financial capacity in discussion with existing and prospective investment partners.

Regulation and investment staff at the Corporation will work together, to ensure that our expectation that associations use their financial capacity is not met at the expense of an association's financial viability, or indeed any other regulatory expectations that we have.

Again we recognise that housing associations are independent businesses. We cannot force associations to facilitate lower grant rates by using more of their own financial resources to fund new developments. Nor do we want in any way to dictate how boards should utilise their capacity. It is however legitimate for us to make judgements about how we direct government funding to those associations which are able, and willing, to use their own financial capacity so that we can achieve shared objectives.

Our proposals

Meeting the challenges of creating and managing sustainable neighbourhoods and communities, maintaining existing assets and achieving a step-change in housing supply, will require the organisations which we work with to:

- deliver investment programmes as agreed with the Housing Corporation;
- meet the Corporation's quality and design standards in delivering those programmes;
- develop and implement an asset management strategy encompassing existing and new stock; and
- use their financial strength to supplement and complement the Corporation's investment and pursue other added-value activities.

The Corporation clearly has an important role to play in facilitating and creating the conditions for associations and other partner organisations to meet those challenges. Development of the proposals set out in Future Investment Approaches will form a significant aspect of that role in respect of new supply, and we will in addition continue to use our research and innovation programme to develop and share best practice around some associations' wider community roles.

There is also a role to be played by the publication of our performance assessments of housing associations in HCAs.

Options on performance assessment

We considered two specific options, in terms of performance assessment as we developed this consultation paper:

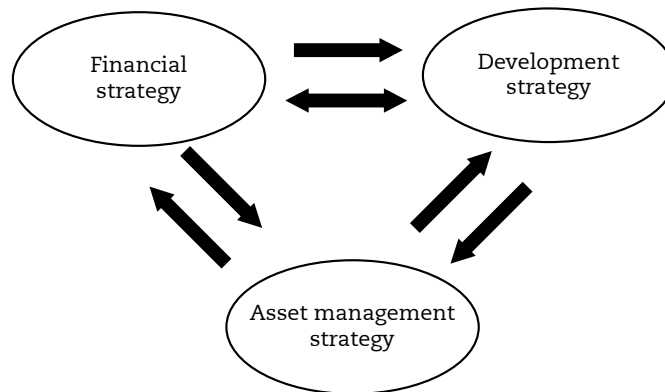
- the introduction of a fifth traffic light focussing on asset management and leverage of financial capacity; and
- inclusion of those issues within a remodelled Development section of the HCA, turning it into an Investment section.

We were concerned that the introduction of a fifth traffic light in the HCA would represent 'traffic-light overload'. And at the same time we recognised that the concepts of new investment, reinvestment and disinvestment are so closely interlinked that it would be sensible to combine them within a remodelled Development section.

We are therefore proposing to make changes to the Development section of the HCA to make it more relevant in the context of developments outlined in the Background section of this consultation paper.

Instead of focusing just on the use of Housing Corporation funding, we will use the fourth part of the HCA to publish our assessment of how well an association aligns its financial, asset management and development strategies.

Alignment of key strategies



In making our assessment we will take account of the association's:

- use of Corporation funding in terms of delivery of its agreed investment programme (including completions and delivery of other milestones);
- achievement of the Corporation's quality and design standards in the delivery of its investment programme;
- investment of other funding streams in regeneration and new development initiatives;
- asset reinvestment strategy including works to meet Decent Homes and beyond, together with works to improve environmental performance and reduce the carbon imprint of existing stock;
- disposals strategy;
- approach to stock rationalisation; and
- application of its financial capacity.

Arriving at our assessments

The work we will undertake to arrive at our judgements will principally consist of:

- reviewing the association's delivery of its Corporation-funded investment programme including the delivery of the programme by tenure (split by rent and sale) and any other agreed targets (such as for housing key workers). This will focus on the delivery of completions targets. However, we will also take into account activity in building the programme for future years (through successful completion of other milestones such as start on sites), accuracy of forecasting, and active programme management (through the active management of reserve schemes and the offer of alternative schemes where appropriate);
- reviewing the association's delivery of the Corporation's quality and design standards. Particular attention will be paid to the

outcomes of Compliance Audit visits, impact assessments and performance as assessed through the value-for-grant comparator.

We will also take into account the number of waiver requests to move outside the Corporation's design and quality standards and any external assessment of performance in this area that the Corporation may commission;

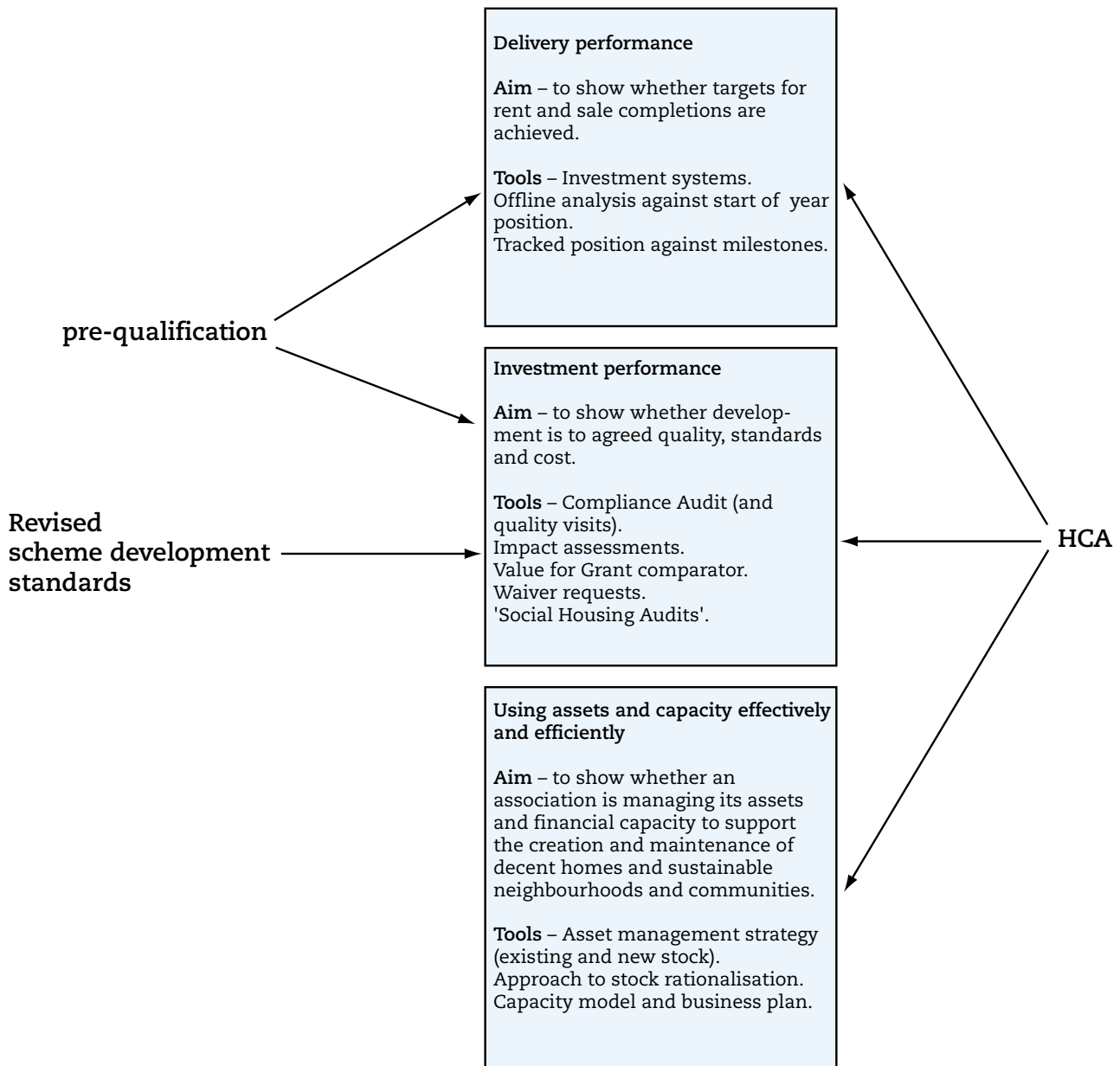
- reviewing the association's asset management strategy and how that strategy fits with the association's objectives. Particular attention will be paid to how the various aspects of the strategy – new investment, reinvestment and disinvestment – are joined up to develop and/or sustain thriving neighbourhoods and communities. We will look at the association's overall approach to asset management, drilling down to the impact that approach has at local authority, neighbourhood and community levels where appropriate. Over time this may also increasingly focus on how associations are addressing environmental issues in respect of their asset base;
- assessing the extent to which the associations boards and management teams have reconciled financial, development and asset management strategies to ensure that the financial capacity of the association is being appropriately utilised. This will include analysis of business plans, financial forecasts, performance indicators, grant rates, annual efficiency statements, and decent homes and rents data. Again, we would stress that this is not principally an assessment of the choices that boards are making in how they use their

resources, but rather ensuring that boards are striking an appropriate balance between prudence and efficiency.

We anticipate collecting appropriate assurance from associations by way of annual Self Assessment Compliance Statements (SACS). The overall approach to our assessment of investment performance management is shown in the diagram on the following page.

There will be a transitional period as we develop our new approach to the fourth traffic light, and we will agree the timetable for the introduction of the Investment traffic light with individual associations.

Assessment of investment performance management



Straplines and traffic lights

We propose using the following straplines and traffic lights to highlight our assessments.

Investment

Note In the following straplines, the section in square brackets would only apply to associations with a Corporation-funded investment programme.

The association demonstrates a satisfactory commitment to the creation and maintenance of decent homes and sustainable neighbourhoods and communities through the management of its assets and financial capacity.

Note For this traffic light one aspect of the assessment could be as above for a green traffic light, but the other aspect would be one of the following.


The association [demonstrates good performance in meeting the Corporation's requirements for the delivery of its investment programme, has delivered homes to the design quality and standards required, and] demonstrates a strong commitment to the creation and maintenance of decent homes and sustainable neighbourhoods and communities through the management of its assets and financial capacity.

[The association's performance in meeting the Corporation's requirements for the delivery of its investment programme is unsatisfactory, and it has not delivered homes to the design quality and standards required.]

Note For this traffic light one aspect of the assessment could be as above, but the other aspect would be one of the following.

The association does not demonstrate a satisfactory commitment to the creation and maintenance of decent homes and sustainable neighbourhoods and communities through the management of its assets and financial capacity.

[The association demonstrates satisfactory performance in meeting the Corporation's requirements for the delivery of its investment programme, and has delivered homes to the design quality and standards required.]

 **Note** For this traffic light one aspect of the assessment could be as above for one of the green or amber traffic lights, but the other aspect would be one of the following.

[The association's performance in meeting the Corporation's requirements for the delivery of its investment programme is unacceptable, and it has not delivered homes to the design quality and standards required.]

The association demonstrates an unacceptable approach to the creation and maintenance of decent homes and sustainable neighbourhoods and communities through the management of its assets and financial capacity.

Next steps

We invite views on our overall approach and the proposed changes as detailed above. Subject to responses we propose to publish a revised approach to HCAs in September 2007.

Please send written comments and responses by Monday 11 June 2007 to:

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One Piccadilly Gardens
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Annex 1: Regulatory Code expectations

Viable

The Regulatory Code requires housing associations to operate viable businesses, with adequate recourse to financial resources to meet their current and future business and financial commitments.

responsibilities of all individuals. They must promote good relations between people of different racial groups; and

- operate a framework that effectively identifies and manages risks.

Properly governed

The Regulatory Code requires associations to:

- operate according to the law and their constitutions;
- be headed by an effective board with a sufficient range of expertise – supported by appropriate governance and executive arrangements – that will give capable leadership and control;
- maintain the highest standards of probity in all their dealings;
- protect public investment;
- seek and be responsive to residents' views and priorities;
- deal with the Corporation in an open and co-operative manner, notifying any anticipated or actual breach of the Code or anything that might significantly affect associations' ability to fulfil their obligations under the Code;
- demonstrate, when carrying out all their functions, their commitment to equal opportunity. They must work towards the elimination of discrimination and demonstrate an equitable approach to the rights and

Properly managed


The Regulatory Code requires associations to:

- set rents which move towards target social rents and are, on average, below those in the private sector for similar properties and which reflect size, property value and local earnings;
- have management arrangements, resources, skills and systems which are appropriate to their circumstances, scale and scope of operation;
- deliver continuous improvements and value for money in their services;
- develop and manage good-quality homes that seek to meet people's needs and preferences now and in the future;
- provide good-quality housing services for residents and prospective residents;
- work with local authorities to enable the latter to fulfil their duties to the homeless, vulnerable and people in priority housing need; and
- demonstrate that their strategies and policies are responsive to their economic and social environment and link into regional and local housing strategies.


Annex 2: Current HCA traffic lights and straplines

Viability


 The association meets the expectations set out in the Regulatory Code in terms of financial viability.


 The association meets the expectations set out in the Regulatory Code in terms of financial viability, however exposures exist which make it vulnerable to deterioration.


 The association's financial viability is of concern.


 The association's financial viability is of serious concern.

Properly governed


 The governing body gives effective leadership and control, has a wide range of skills and experience and, supported by appropriate governance and executive arrangements, is improving its own performance and that of the organisation.


 The governing body, supported by appropriate governance and executive arrangements, maintains satisfactory control of the organisation.


 The governing body needs to take further action to ensure capable leadership and control of the organisation.


 The governing body does not demonstrate effective control of the organisation. Accordingly the association is in breach of the Regulatory Code.

Properly managed


 The association demonstrates a strong commitment to continuous improvement and to effective and efficient service delivery. Given the context in which it works and the available resources it achieves high quality outcomes.


 The association generally meets the standard expected given the context in which it works and the available resources.


 The association's performance is below the standard expected given the context in which it works and the available resources.


 The association's performance fails to achieve the outcomes specified in the Regulatory Code.

Development with Housing Corporation funding

 The association demonstrates a good performance by achieving or exceeding its annual targets, maintaining good progress against targets during the year and delivering quality housing that meets our standards.

 The association's performance is satisfactory. It delivers housing that meets our standards but has not met all of its targets over the past year. However, the shortfall was relatively small and was caused by circumstances outside its control. The association keeps the Corporation fully informed of problems and keeps its in-year forecasting up to date.

 An unsatisfactory performance. The association has not met its targets over the past year and must improve [in year performance and forecasting], [overall programme delivery], [the quality of housing]. However the association has worked with the Corporation so that in-year adjustments could be made.

 An unacceptable performance. The association has failed to meet its targets over the past year and has not kept the Corporation adequately advised of the problems encountered

The association has not received (substantial) Corporation funding in the past year.

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We can provide copies in large print, Braille and audio cassette, on request. Other language versions may also be available.

The Housing Corporation is reviewing how it publishes its Housing Corporation Assessments (HCAs), and is looking for comments on its plans. Responses are invited by 11 June 2007.

