DTP VIEWS

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Value for money – what is the impact?

– Sam McGrady, Director, DTP

In my last blog on the Regulator for Social Housing (RSH)'s overhaul of the Value for Money (VFM) standard, I concluded by suggesting the devil would be in the detail. So, the consultation is now over and we have had a month of life under the new regime. The details have been confirmed and we have a much better understanding of what the new regulatory approach looks like. There's still much to get to grips with – but we no longer have the excuse of ignorance.

It's all there in black and white, most notably in the seven 'compulsory' metrics which all Registered Providers (RPs) must report on annually in their statutory accounts, starting now. The era of lengthy, narrative self assessment is over; welcome to the brave new world of economy, efficiency and effectiveness. These 'three Es' are fast adopting the status of a mantra. In reality, the changes between the old approach and the new are not many: reporting has changed, yes, and there is an enhanced focus on the role of boards, in delivering VFM across the whole organisation (not just social housing), and – perhaps most pleasing – tenants re-enter the world of VFM regulation, with reference to 'investment in services to tenants'.

In terms of the metrics, these are in large part the ones that the social housing sector itself wanted, being a subset of the 'Sector Scorecard' – a sector-led initiative which successfully concluded its pilot last year, and is already 'live' for data entries this year. So it's not surprising that most noises from sector leaders on the Standard have been upbeat.

My view is the VFM standard, and its accompanying Code of Practice, should be broadly welcomed. It provides the foundation on which the sector can achieve its key objectives of building more homes, improving existing properties and delivering better services for tenants.

It should give the government, the RSH and providers a more informed, evidence-based picture of how the sector as a whole is performing, and how organisations compare to their peers. And it makes a good starting point for addressing some of the wide cost variations within the sector.

The devil is now in another detail – how well RPs will rise to the challenge implicitly set by the new Standard. This challenge is complex but ultimately rests on creating a new VFM culture, one which is embedded throughout every organisation's structure and within its key objectives.

It starts with the board, which has to take a strategic lead in VFM, ensuring you have an effective reporting framework and targets for both the RSH metrics and your own VFM measures – targets which reflect your individual story. In many cases, more will be required of boards to make sure this happens.

Crucial first decisions include whether your VFM approach should be a standalone strategy, or something embedded in your existing corporate objectives. And don't take your eye off the In Depth Assessment ball – as this will remain the key assessment method for VFM.

Everything needs to be better: decision making, options appraisals, performance reviews. And a deep and broad analysis of assets across your whole organisation – not just social housing – will be needed. Are you optimising the financial returns from those assets – and if not why not?

It's about constantly asking questions – and making sure you can answer them. What are your costs and what are driving them? How do those costs compare with others and how are they changing over time? Are you regularly and pro-actively considering structural changes which can help you address VFM challenges: e.g. mergers, diversification, partnerships and changes to your geographical reach? Have you weighed up the risks and rewards of your non-social housing activity? Is your board equipped to hold your executive to account?

From now on, VFM has to permeate everything you do: from corporate governance to contracts, procurement, cost sharing/partnerships, from non-social housing diversification to consideration of mergers and acquisitions.

And as for the three Es, a mantra is one thing, but you also need a deep understanding of what they mean. Economy is all about inputs, how you minimise the cost of resources while having regard to quality. Efficiency, meanwhile, is about outputs: the relationship between the resources needed to produce goods/services and what you get out of them. Finally, effectiveness is about outcomes: are you achieving your objectives and do your intended and actual impacts match up?

While I'm optimistic, it's important we are cautious until we see how the new system works in practice. Unintended consequences by their nature are unpredictable and no-one can rule them out. We need to certainly make sure we don't just tick the boxes required for reporting – but also focus on actually improving performance. I'd also urge providers to watch out for evidence that complying with the Standard is skewing behaviour. Here it's important that we don't become exclusively focused only on the things which have to be reported on.

And finally, I'd urge providers not to let others tell your story: make sure you do it. Don't forget that amidst the strictly defined metrics there remain opportunities – indeed, a compulsion – to craft your own unique narrative around those numbers. Yes, the VFM Standard is about providing an assessment of the performance of the social housing sector as a whole. But it also provides opportunities for the broad range of social housing providers to explain what's different about their circumstances, their approach and the value they bring. In the rush to comply, that's something we should all remember.