KNOX CROPPER
chartered accountants

Contact us
London: 020 7332 6400
Haslemere: 01428 652788
Hemel Hempstead: 01442 218309

Value for Money Metrics for Smaller Providers of Social Housing

The Regulator of Social Housing has updated its accounting rules for housing associations in a new direction published on 20th February 2019. The new rules are part of the English regulator's plan to align its requirements with the Value for Money Standard introduced in April 2018.

Seven mandatory metrics are included in the Value for Money (VfM) Standard and the regulator will now require Registered Providers to report their progress against these in their accounts.

As well as this, Registered Providers will have to set out "measurable plans to address any areas of underperformance". For this reason, it is recommended that smaller associations form benchmarking groups to enable them to measure their VfM performance against other comparable organisations.

Calculating the Metrics

For Trustees of smaller providers of social housing, the calculation of VfM metrics can be a daunting prospect, full of specific requirements from the Regulator. In most cases, however, this need not be the case if you follow the guidelines summarised in this document. For any organisation with more complex requirements, we recommend professional advice is sought.

We set out below an overview of each of the mandatory metrics, with the basis of the calculation for each. The reporting requirements in the Direction are very specific, but Providers are free to report any additional measures which serve to increase transparency with stakeholders and provide an insight into their activities. This could include, for example, tenant satisfaction surveys and responsiveness to maintenance callouts.

Where a Provider's reported metrics are impacted by a factor particular to them as an organisation, the association should also clarify the reasons in the commentary accompanying the metric calculation.

Metric 1 – Reinvestment %

This demonstrates the investment in properties (existing stock as well as new supply) as a percentage of the value of total properties held:

Development of New Properties (Total Housing Properties)
Plus: Newly Built Properties Acquired (Total Housing Properties)
Plus: Works to Existing (Total Housing Properties)
Plus: Capitalised Interest (Total Housing Properties)
Plus: Schemes Completed (Total Housing Properties)
Divided by:
Tangible Fixed Assets: Housing Properties at NBV (Current Period)

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Metric 2 – New Supply Delivered %

This displays the number of new social housing units that have been purchased or developed in the year as a proportion of total social housing units owned at period end (A). Providers must also calculate the same for non-social housing units (B):

A: Social Units Developed or Newly Built Units Acquired In-Year (Owned)
B: Non-Social Housing Units Owned
Divided by:
A: Total Social Housing Units Owned (Period End)
B: Non-Social Housing Units Owned (Period End)

Metric 3 – Gearing %

Gearing is a measurement of the association's financial leverage, which demonstrates the degree to which their activities are dependent on debt finance. It is useful for assessing the association's development plans. In many of the smallest associations it is common to have no long-term borrowings, finance leases or group undertakings:

Short-Term Loans
Plus: Long-Term Loans
Less: Cash and Cash Equivalents
Plus: Amounts Owed to Group Undertakings
Plus: Finance Lease Obligations
Divided by:
Tangible Fixed Assets: Housing Properties at NBV (Current Period)

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

This illustrates the level of surplus that the association generates compared to interest payable, whilst removing any distortions arising from the depreciation of properties:

Operating Surplus/(Deficit)
Less: Gain/(Loss) on Disposal of Fixed Assets (Housing Properties)
Less: Amortised Government Grant
Less: Government Grants Taken to Income
Plus: Interest Receivable
Less: Capitalised Major Repairs Expenditure for Period
Plus: Total Depreciation Charge for Period
Divided by:
Interest Capitalised
Plus: Interest Payable and Financing Costs

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Metric 5 – Headline Social Housing Cost per Unit %

The headline social housing cost per unit as defined by the regulator. In a small association it would not be uncommon for this metric to consist of total costs less depreciation, interest and bad debts, plus capitalised major repairs:

Management Costs
Plus: Service Charge Costs
Plus: Routine Maintenance Costs
Plus: Planned Maintenance Costs
Plus: Major Repair Expenditure
Plus: Capitalised Major Repairs Expenditure for Period
Plus: Other (Social Housing Letting) Costs
Plus: Development Services
Plus: Community/Neighbourhood Services
Plus: Other Social Housing Activities
Plus: Other Social Housing Activities - Charges for Support Services
Divided by:
Total Social Housing Units Owned and/or Managed at Period End

Metric 6 – Operating Margin %

This demonstrates the profitability of operating assets before exceptional expenses are taken into account. Increasing margins are one way to improve the financial efficiency of an association. Providers are required to report on two Operating Margin ratios:

A. Operating Margin (social housing lettings only)

B. Operating Margin (overall)

In small Providers, where Turnover is exclusively form social housing lettings and where housing property disposals are rare, it would not be unusual that the same calculation would be applicable for both ratios:

A. Operating Margin (Social Housing Lettings) %
Operating Surplus/(Deficit)
Divided by:
Turnover from Social Housing Lettings
B. Operating Margin (Overall) %
Operating Surplus/(Deficit)
Plus: Gain/(Loss) on Disposal of Fixed Assets (Housing Properties)
Divided by:
Turnover (Overall)

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Metric 7 – Return on capital employed (ROCE) %

This metric compares the 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:

Operating Surplus/(Deficit)
Plus: Share of Operating Surplus/(Deficit) in Joint Ventures or Associates
Divided by:
Total Assets less Current Liabilities

Knox Cropper LLP

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