

Trends in Scottish Housing Regulator inspections

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Introduction

This briefing provides an overview of the Scottish Housing Regulator's (SHR's) publication *Social Landlords in Scotland: shaping up for improvement* (July 2009),¹ which provides a summary of the findings from inspections over the last five years. The briefing also draws out emerging themes from most recent inspection reports published during the summer of 2009.

Summary

The central findings and themes from the report and more recent inspections are:

- Key characteristics of organisations that deliver good outcomes are underpinned by good leadership and strategic management, customer focus, pursuit of value for money and strong performance management frameworks
- Over the past five years housing associations have tended to perform better than local authorities in Scotland
- Inspections suggest local authorities provide poorer homelessness services than they do other housing services
- The SHR is now focusing on: customer focus, efficiency and value for money, robust business planning (particularly in the housing association sector), strong performance management frameworks (across housing associations and LAs), good governance and encouraging honest self-assessment in the context of risk-based approach to regulation.

Key characteristics that determine good practice

Social Landlords in Scotland: shaping up for improvement (July 2009) sets out the hallmarks of organisations that delivers good outcomes. These are:

- Good leadership and a commitment to delivering quality services and improvement
- Clear organisational plans and priorities
- Sound self-evaluation and performance management, based on good quality cost and performance data
- Good business planning and financial management

¹

http://www.scottishhousingregulator.gov.uk/stellent/groups/public/documents/webpages/shr_shapingupforimprovement.pdf

- An appetite for management change to secure improvement
- Responsiveness to tenants and locally-focused customer services
- Strong connections with local partners and funders
- The pursuit of value for money, benchmarking, market testing, and modern procurement
- Resources, and staff training and development, aligned to improvement activity.

The SHR emphasises that ‘active, informed performance management is a vital ingredient for success and improvement’. This is a recurring theme through this publication and most recent inspection reports. It suggests that performance management is under-developed in the housing sector, and particularly so in the local authority sector. The best performance management systems are said to have:

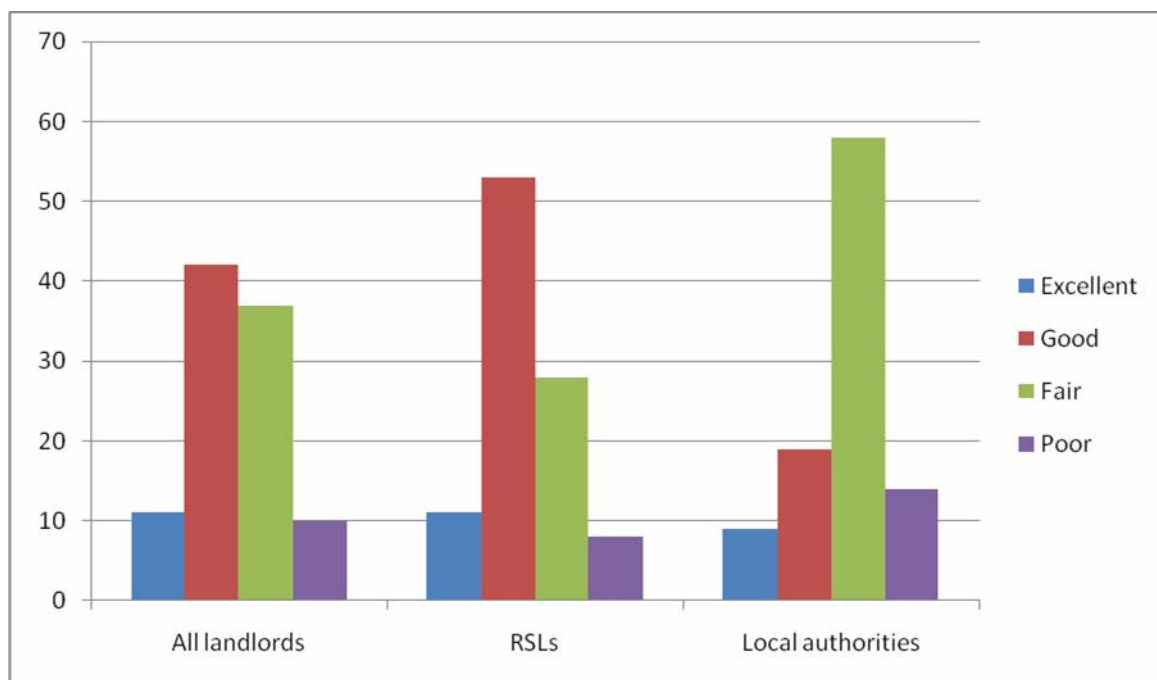
- Sound systems providing accurate and reliable information (including robust methods of finding out what their customers want and doing something about what customers tell them)
- Honest self-assessment
- Benchmarking with better organisations and against better processes
- Good reporting to people who can challenge and make decisions
- Action plans
- Performance indicators
- Clear links to corporate processes
- Good training and development for staff.

Grading outcomes: comparing housing associations and local authorities

The publication includes some grading comparisons between housing associations and local authorities. Since 2004 the SHR, and its predecessors, have published inspection reports for 112 social landlords: 84 housing associations (60%) and 28 local authorities (70%). In general the SHR has found poorer performance in the local authority sector, although the report also states that it has a shorter scrutiny history with local authorities (five years) than with housing associations (over 20 years). The local authority scrutiny landscape is put in context in terms of PMP audits and Best Value audits, but the SHR argues that while these have been good for corporate leadership and accountability, its impact on service improvement has been more limited.

The graph below summarises SHR gradings for LAs and housing associations over the last five years. This shows that according to the SHR, housing associations have been better at delivering social landlord services in overall terms:

- 11% of housing associations have been graded as excellent compared to 9% of LAs
- 53% of housing associations have been graded as good compared to 19% of LAs
- 28% of housing associations have been graded as fair compared to 58% of LAs
- 8% of housing associations have been graded as poor compared to 14% of LAs.



The SHR states that, in general, local authorities take longer to improve than housing associations. It recognises that this is partly a reflection of scale, but also the broader corporate context in which local authorities work. The SHR is currently working with the Accounts Commission as the shared risk assessment framework for local authorities is developed (in the context of the Crerar Review and reducing the regulatory burden), and it is still to be decided as to whether the SHR will have a role in scrutinising local government housing services in the future.

Key performance indicators

Key housing management and financial indicator trends over the last five years show the following:

- *Rent arrears* – there has been a reducing trend, although local authorities managed to maintain this whereas housing associations have levelled off more recently. In 2007/08 LAs stood at an average of 5.5% and housing associations at

approximately 5.8%. The SHR makes the point there is scope for significant improvement when performance is compared to the mean English performance of 2.2% for the same year. Average rents for housing association tenants are about 13% more than LA tenants

- *Void loss* – median percentage void losses for housing associations (0.6% in 2007/8) are lower than LAs (1.5%), but are not showing as much improvement over time. The median re-let time for LAs at 51 days was 28 days longer than housing associations and compares to the English LA indicator of 31 days in 2007/08. However, again Scottish local authorities have shown greater improvement in this area whereas 28% of housing associations' performance deteriorated in this area in three of the last five years (2002/03 to 2005/06)
- *Reactive repairs* – the number of reactive repairs per property are increasing in both LA and housing association sectors. Housing associations tend to perform better in completion rates with over half of all housing associations completing 96%-100% of repairs on time compared to nearly all LAs reporting 81%-95% of their repairs in time in 2007/08. Better completion performance of housing associations is also set in the context of generally more challenging targets for completing repairs compared to LAs
- *Costs per unit* – the report does not provide mean unit costs for those inspected over the last five years, stating that the picture is 'muddied' by different accounting and classification approaches. It does conclude that costs are increasing well ahead of rates of inflation in both housing associations and local authorities.

The SHR argues that organisations that have been inspected show a faster rate of improvement across KPIs compared to those that have not been selected for inspection. Inspections have also shown that KPIs are not always measured accurately and verification visits (on APSR and other data submissions) have identified that some housing associations did not keep good enough records to support the information supplied to the SHR. In the light of these findings the SHR is going to continue verification visits.

The report cites a number of reasons for increased costs in managing housing services (put forward by housing professionals) but argues that social landlords are not always good at managing costs or introducing greater discipline into service delivery. It states that a number of organisations do not demonstrate a focus on value for money, cost control and securing efficiencies. The SHR emphasises that the onus must be on landlords to understand their cost drivers, and put measures in place to monitor costs and deliver better value in the round as the current trends of real cost growth is not sustainable in the long term.

Other key themes emerging

The following draws out the remaining key themes from the report, but also recent inspections published over the summer 2009:²

Tenant focus – there appears to be renewed attention on customer focus. It is noted that while most residents think participation should be encouraged, what is most important for tenants is getting a decent home and services right – while customers also want to be listened to, have their priorities met and have redress when things go wrong. The SHR lists key areas for improvement in involving tenants based on their inspection experience:

- Leading participation and customer focus from the top of the organisation. Customer focus and outcomes for tenants should be embedded in all that the organisation does
- Understanding customer expectations through a variety of methods, not just standard satisfaction surveys. This means embedding a range of ways for eliciting information across all parts of the organisation and making systematic use of information that is routinely collected, but historically has not been analysed for this purpose
- To improve accountability, explicit standards setting out the quality of service that tenants can expect from their landlord should be set and published
- There needs to be opportunities for involvement in decision-making, but there should not be an over-reliance of 'formal' structures over a systematic understanding of the broader customer base and responsiveness to their needs
- Landlords should work harder at engaging with a broader and more diverse mix of tenants
- More attention is required on involving tenants in investment planning and specifications for programmes of work and home improvements
- Frontline services should be scrutinised to really understand how customers experience them
- More needs to be done to train and empower frontline staff to handle complaints properly. Organisations should analyse and use complaints information to drive improvement.

Stock quality and management – the SHR has been increasing its emphasis on asset management over the last three years or so, rather than just making an assessment of progress to achievement of the Scottish Housing Quality Standard. It defines asset

² This briefing does not summarise all aspects from the report, but has selected areas where there is a strong theme in the 'Shaping up for improvement' report and from recent inspection reports published in June and July 2009 – Bridgewater Housing Association, Castle Rock Edinvar Housing Association, Berwickshire Housing Association, Glasgow City Council (Homelessness) and Cairn Housing Association

management as having homes of the right kind, in the right place, which meet the needs and standards required now and in the future. It sees this as integral to effective business planning and good financial performance. Inspections over the last five years have shown that most Scottish social landlords are now taking an asset management approach, but few have firmly embedded this into the way that they work. The challenges facing landlords in delivering good asset management are:

- Getting a strategic approach that is right for their organisation – there is not a ‘one-size-fits-all’ model
- Managing investment programmes in mixed tenure estates and stock – the SHR has not always seen good engagement of owners where there is a tendency to leave more difficult cases to the end of investment programmes, particularly for the Scottish Housing Quality Standard
- Getting and maintaining good quality and comprehensive information on house condition, costs, demand and need
- Getting the most out of a strategic approach to procurement and management of supply chains – some landlords have started to use modern procurement approaches, but this is not yet well-established in the sector in Scotland.

In the recent inspection undertaken in 2009, Castle Rock Edinvar Housing (CRE) Association was heralded as having an excellent approach to asset management.³ This is supported in part through its membership of Places for People Group. The CRE approach may be summarised as follows:

- It understands the stock well through a stock condition survey and database
- It undertakes rigorous assessment of current and future needs
- It ensures stock is sustainable and energy efficient and where the cost of long-term maintenance is not economical it has plans to demolish and build new houses
- It involves a wide range of partners in planning and implementing its asset management strategies
- It has a well-developed neighbourhood planning process where cross-functional teams share knowledge and agree the action to be taken to regenerate communities.

Business planning – the SHR has increased its focus on understanding the financial position of housing associations. In-depth analysis of housing associations’ financial performance is included in the *Shaping up for improvement* report: it is concluded that overall the sector is relatively stable financially, although in the current economic environment, the SHR will continue to keep a close eye on financial performance. In this

³ http://www.scottishhousingregulator.gov.uk/stellent/groups/public/documents/webpages/rslcs_026586.pdf

context the SHR is concerned over the quality of business plans and the assumptions underpinning these. It is of the view that there is an urgent need for improvement in this area. The weaknesses found in business plans are around articulating key risks, integrating investment decisions and financial forecasts into business planning and lack of sensitivity analysis. It has been found that sometimes it is only a finance officer or an external consultant who has a full grasp of the financial model being used – it is emphasised that the senior officers and governing body must have a good understanding of the underpinning assumptions, risks and what may change in the organisation. This theme has also come out in all the 2009 housing association inspections, whether they have been assessed as good or fair performers.

Efficiency and value for money – arguably there has been little attention placed on efficiency and value for money in the SHR inspection processes and reports in the past. Again, the focus appears to be changing here and in the *Shaping up for improvement* report there is a debate over costs per unit, and challenges to all landlords over cost control and reduction. It is suggested this can be achieved through collaborative working, sharing services, negotiating better deals with suppliers, reviewing staffing structures, or mergers. The recent 2009 inspections demonstrate the new attention to efficiency. Good practice is cited as having a general culture and awareness of running costs and the need to give VfM to tenants; specific efficiency strategies and plans in place to reduce costs, and adoption of modern methods of procurement. Poor practice is demonstrated by having no intelligence of costs relative to others, traditional approaches to procurement, and no plans in place to reduce rising costs.

Housing association governance – the SHR has found that the quality of governance in the housing association sector is variable, with some governing bodies still having a basic grasp of their role, getting embroiled in low level operational issues and leaving their organisation to be led by their senior officers. The observations over current performance and future challenges are:

- Often governing bodies (and senior staff) spend more time on pursuing a small number of new developments rather than improving the quality of services to hundreds and thousands of existing tenants
- Governance centres around people and relationships. In the SHR's experience statutory interventions have been the result of personality clashes, poor behaviours, power struggles, dominant chief executives, and confused roles within governing bodies or between committees and staff. These dysfunctional situations mean governing bodies struggle to carry out their normal business effectively, and can be hugely time-consuming to sort out. Procedures, codes and processes matter when things go wrong (as does getting good, independent advice), but they are not sufficient in themselves to secure good governance
- Governing bodies generally have a rather lightweight approach to risk management that often relies on management assurance, rather than on a true understanding of the risks facing their organisation

- In a number of organisations, governing bodies are not providing sufficient challenge to management
- Many governing bodies (and some senior officers) are struggling to understand the financial risks their organisations are facing.

Homelessness

When the SHR has inspected local authority homeless services they have generally achieved lower grades than they have for other housing services. Grading for the 28 inspected LAs analysed in the *Shaping up for improvement* report were as follows:

- 14% achieved good or excellent grade for homelessness compared to 28% for LA services overall
- 61% achieved fair grade for homelessness compared to 58% for LA services overall
- 25% achieved D grades for homelessness compared 14% for LA services overall.

Over the last five years the SHR has found an increasing emphasis on prevention services and improved partnership working to provide a better range of support and advice services. Recurring themes in poorer performing local authorities are:

- Lack of clear corporate leadership
- Weaknesses in basic assessments
- A heavy reliance on bed and breakfast, and breaches of the Unsuitable Accommodation (Scotland) Order
- Limited service user involvement
- Poor monitoring of the quality of outcomes for homeless people.

The most recent homeless inspection report was for Glasgow City Council published in July 2009.⁴ This was undertaken as a thematic inspection involving the City Council and six housing associations although only the Council's report has been published to date. The Council achieved a fair performance with strengths around:

- Prevention and reduction of repeat homelessness
- Offering a wide range of accommodation tailored to specific needs
- A positive approach to assessing priority need

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http://www.scottishhousingregulator.gov.uk/stellent/groups/public/documents/webpages/shr_glasgowcitycouncilinspecti.pdf

- A successfully completed hostel closure programme, reduction of B&B and increased number of temporary furnished flats.

Weaknesses were around:

- Failing to meet its statutory duties by not always providing emergency or temporary accommodation when homeless people need it
- Not always intervening early or preventing homelessness occurring
- Poor at assessing homelessness applications
- The way it lets and manages its temporary accommodation
- A backlog of people waiting for permanent accommodation.

While this was undertaken as a ‘thematic’ inspection, the housing association reports have yet to be published and it is not clear whether an overarching report covering outcomes overall will be published to provide good practice and lessons for the benefit of local authorities and partners across Scotland.

The future of regulation

The *Shaping up for improvement* report concludes on the emerging themes and how this has focused its activities at least in the short term while the Scottish Government consults on new legislation for housing regulation:

- Keeping a strong focus on the priorities of tenants and service user
- Continuing to develop the risk-based approach to regulation
- Stepping up the focus on the financial health and governance of individual housing associations and business planning within the sector, and strengthening links with lenders and development funders
- Working with landlords on costs and efficiencies, to secure a better information base and share good practice
- Reviewing information returns and analytical products to ensure they are fit for purpose to support risk-based regulation and benchmarking within the sector
- Working with Audit Scotland on shared risk assessment in local government and adjusting our inspection focus and approach as a result
- Liaising with the Scottish Government on new legislation and standards.

HQN's conclusion

The *Shaping up for improvement* report provides a very useful analysis of historical judgements from the SHR in its various guises, and possibly more importantly, the most recent inspection reports provide a clearer picture of its future focus.

The report makes interesting comparisons between LAs and housing associations with the overall conclusion that LA performance has been less positive than that of the housing associations: as the report highlights, LAs work to a much wider and arguably more complex agenda, although some have demonstrated excellence is achievable in the LA setting – notably West Lothian which achieved two As out of three grades. Some in the LA sector may argue that the regulator's shorter history of working with LAs compared to housing associations may also have had an impact on judgements. The outcome of ongoing discussions between Cosla, Audit Scotland and the SHR should soon reveal whether the SHR will have an ongoing role with LA housing services. However, many in the social housing sector including customers would argue that to have different forms of regulation – one for housing associations and another for LAs – is confusing and iniquitous for tenants.

Regardless of who the regulator is to be, HQN agrees with the priority placed on customer focus and particularly in respect of efficiency and value for money which, to date, has been largely absent in the Scottish housing regulatory regime.

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