



National Audit Office

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Department for Communities and Local Government

# **Financial viability of the social housing sector: introducing the Affordable Homes Programme**

Detailed methodology

JULY 2012

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# Detailed methodology

## Study scope

**1** In 2010 the government announced a new programme for delivering affordable (which the Department defines as below market price) housing in England – the Affordable Homes Programme. The Programme aims to deliver affordable housing in England through a mixture of affordable rent and affordable home ownership. Affordable rent is a new funding model, whereby housing providers can charge rent at up to 80 per cent of market rate, and use the money to leverage further borrowing to build homes.

**2** We examined how the Department for Communities and Local Government (the Department), the Homes and Communities Agency (the Agency) and the Tenant Services Authority (the regulator) have taken account of the financial viability of providers who have taken part in the Programme, while achieving policy objectives. We examined:

- how the Department planned the Programme and appraised the options;
- whether the Agency assessed offers for the Programme robustly and its efforts to get the most from the funds; and
- the effectiveness of the regulator's assurance on the financial viability of Registered Providers who applied for the Programme.

## Methodology

**3** The main methods used during the course of this study were:

- File review;
- Quantitative analysis;
- High-level validation of the Affordable Rent impact assessment;
- Document review;
- Interviews with the Department, Agency and regulator;
- Interviews with stakeholders and sector experts; and
- Case studies.

4 We established an audit framework at the beginning of the study and used this to collate and synthesise the evidence gathered during fieldwork. The audit framework was based on National Audit Office guidance including *A short guide to structured cost reduction*. Our fieldwork took place between January and March 2012.

### **File review – the Tenant Services Authority**

5 We reviewed a sample of 120 assessments carried out by the regulator on the financial viability of Registered Providers bidding for funding through the Affordable Homes Programme. We reviewed each of the assessments against internal guidance developed. The review allowed us to evaluate whether the process put in place by the regulator was robust and fit-for-purpose.

### **File review – the Homes and Communities Agency**

6 We reviewed a sample of 40 offers for funding submitted by Registered Providers and local authorities. We reviewed each of the offers against internal guidance developed by the Agency to better understand the criteria used to allocate funding, and the degree of challenge providers faced from the Agency in terms of value for money. Whilst on site we met with the Agency's regional teams to understand how they liaised with providers during the bidding process, and to understand the first phase of the assessment process.

### **Quantitative analysis**

7 We reviewed quantitative information supplied by the Agency on successful and unsuccessful offers to identify key success factors, and the characteristics of successful bids. In addition we reviewed information supplied by the Agency on rent levels to understand the impact of the affordable rent model on tenants.

### **High-level validation of the Affordable Rent impact assessment**

8 We carried out a high-level validation of the Affordable Rent impact assessment to understand the nature of the modelling work carried out by the Department. Our work focussed on validating the costs and benefits associated with the Department's decision to introduce affordable rent and affordable home ownership and the impact of benefit changes on the affordable rent model. We used HM Treasury Green Book guidance to inform our judgement on whether the impact assessment was robust. We did sufficient work on the two options the Department decided not to pursue to understand why they were excluded.

## Interviews with the Department, Agency and regulator

**9** We conducted semi-structured face-to-face interviews with representatives from the Department, the Agency and the regulator. The interviews helped us to understand how work to deliver the Programme had been planned and designed, and how resources had been allocated.

## Document review

**10** We reviewed and analysed key documents supplied to us by the Department, the Agency, and the regulator. Our review included documents on the planning and implementation of the Programme including the Affordable Rent business case, the Affordable Homes Framework, and internal documents setting out the process followed by the Agency and regulator when assessing offers. We also reviewed existing research around the financial viability of the social housing sector, and the challenges facing the sector such as the impact of welfare reform and the economic climate.

## Interviews with stakeholders and sector experts

**11** We interviewed and invited comments from a range of key stakeholders and experts to understand the challenges facing the sector, and the impact of the affordable rent model. Key stakeholders included:

- Chartered Institute of Housing.
- Council of Mortgage Lenders.
- Department for Work and Pensions.
- Greater London Authority.
- Housing and Finance Corporation Limited.
- Local authorities.
- Local Government Association.
- National Housing Federation.
- POD Consulting.
- Registered Providers.
- Tenants' and Residents' Organisations of England.

## Case studies

**12** We selected six Registered Providers as case study examples. The case studies involved interviews with representatives from each of the Registered Providers to understand better their experiences in applying for funding through the Programme, and identify best practice and lessons learnt. We also spoke to local authorities that had worked with Registered Providers during the application process.