



Homes &
Communities
Agency

HCA regulator of social housing Innovation in regulation



© Crown copyright, 2017

Copyright in the typographical arrangement rests with the Crown.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence.

To view this licence, <http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/> or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

This document/publication is also available on our website at www.gov.uk/hca. If you have any enquiries regarding this document/publication, email us at mail@homesandcommunities.co.uk or write to us at:

Homes and Communities Agency
Fry Building
2 Marsham Street
London
SW1P 4DF
Telephone: 0300 1234 500

For all our latest news and updates follow us on Twitter: https://twitter.com/HCA_UK

March 2017

ISBN: 978-1-4098-5032-8

Contents

Background to Innovation Plans	4
How we have consulted	4
Innovation by registered providers and technology	5
Innovation and regulation	6
New technologies	6
Innovative business models	7
Use of new technologies by the regulator	7
Digital services	8
Automation	9
Data sharing	9
Conclusion	10
Annex 1 – List of respondents	11

Background to Innovation Plans

1. In July 2015 HM Treasury published *Fixing the foundations: creating a more prosperous nation*. This set out plans to boost the UK's productivity growth centred around two key pillars: encouraging long-term investment and promoting a dynamic economy. This included a requirement for regulators to publish Innovation Plans in 2016.
2. The purpose of the Innovation Plans requirement is to help ensure that the UK regulatory framework is working effectively to support technological innovation and disruptive business models. The latter are innovative business models which disrupt existing markets such as Uber and airbnb.
3. The Innovation Plans requirement is also aimed at getting assurance that regulators are using technological innovation to deliver their own work more effectively and to reduce burdens on business. The social housing regulator welcomes this focus on innovation as it provides fresh impetus to learn and improve in a rapidly developing technological world.
4. The Government also asked that Innovation Plans should cover the following three issues:
 - a) How legislation and enforcement frameworks could adapt to new technologies and disruptive business models to encourage growth
 - b) An assessment of how new technology is likely to shape the sectors being regulated
 - c) Actions for how regulators could better utilise new technologies to generate efficiency savings and reduce burdens on business.
5. The social housing regulator undertook informal consultation on the HCA's Innovation Plan and this is our first published plan. This plan provides a snapshot of the current position and the ways in which we will continue to strive to make improvements over time. The regulator's Innovation Plan will be kept under review and will be updated as developments occur which make this appropriate.

How we have consulted

6. The social housing regulator undertook an informal consultation during December 2015 and January 2016. The purpose of this consultation was to inform the development of the regulator's Innovation Plan. We primarily consulted through our existing stakeholder engagement channels. However, involvement in the consultation was also promoted through social media and the HCA newsletter to reach out to a wide range of potential interested parties.
7. We engaged with a wide range of sector stakeholders in developing our Innovation Plan. This included a broad cross-section of provider representatives and commercial/advisory organisations that provide services to registered providers. In addition, we directly engaged with commercial social housing providers and encouraged responses from potential new entrants to the sector.

8. Stakeholders were invited to comment on the following questions:

- How can social housing regulation allow for the use of new technologies and disruptive business models?
- How are new technologies shaping the social housing sector? Are there any implications for social housing regulation?
- In what way could the regulator make more use of new technologies in carrying out its role?

We received thoughtful and considered input to the consultation from a range of stakeholders including 23 written submissions (see Annex 1) which we have reflected upon below.

Innovation by registered providers and technology

9. Registered providers are innovating through use of a wide range of new technologies in delivery of services to tenants. These include, but are not limited to, the following:

- Digital services for tenants (including via mobile apps) such as to report repairs and make rent payments
- Equipping housing officers with mobile working technologies fully integrated with housing systems to allow services to be provided to residents in their homes
- Automation technology for managing rental income payments
- Use of renewable energy technologies (e.g. solar panels) and energy efficient measures (e.g. LED lighting, smart meters) in new homes
- Use of webchat and video conferencing for engaging with tenants
- Provision of small scale power generation providing electricity directly to tenants
- Experimentation with drones equipped with cameras to aid in maintenance inspections

10. Many responses also commented on the future potential for the Internet of Things (IoT) to change the face of the sector. Data in relation to areas such as boiler performance, carbon monoxide detectors and energy usage may be readily available to registered providers in future. However, many cautioned about the potential for issues of data privacy to emerge.

11. Beyond the use of innovative technologies there is a variety of business models adopted in the social housing sector. In a world of lower public subsidy but high demand for affordable housing, registered providers are increasingly looking at new opportunities for development and new ways of raising finance.

12. For instance, commercial activities can be an important way in which registered providers cross subsidise their main social housing purpose to encourage supply. In addition, providers seeking access to new funding have potential access to a wide range of complex and innovative financing arrangements.

Innovation and regulation

New technologies

13. The regulatory standards for social housing are outcomes based. This should allow registered providers to adopt any of the new technologies highlighted above without hindrance from the social housing regulator. During our Innovation Plan consultation many providers commented that the regulatory framework allowed them to adopt new technologies freely and that no changes to the current framework were needed.
14. In some cases use of new technologies will be subject to requirements from other regulators. For instance, use of drones is subject to licensing requirements from the Civil Aviation Authority. We are not aware of any instances where involvement of the social housing regulator in this respect is needed nor were any raised in the consultation.
15. During our Innovation Plan consultation a number of responses suggested that there was a role for the regulator in sharing good practice in relation to adoption of innovative technologies and promoting a culture of innovation more generally. However, the regulator no longer has a good practice role in relation to any aspect of the sector. Providers can seek good practice advice from other available sources. We believe it is right and in line with our fundamental objectives, that the regulator remains neutral on adoption of innovative technologies and leaves providers to make choices based on what is right for them. As outlined in paragraph 13 the regulatory standards for social housing are outcomes based and allow registered providers to freely adopt new technologies without hindrance.
16. Other providers expressed concern that investment in new technologies may have a negative effect on how the regulator views their VFM or risk management position. In relation to the former, this is because up-front investment in new technology may not yield increased efficiency savings in the short term. However, when registered providers analyse their VFM position through the VFM self- assessment that they publish annually they can reflect any contextual factors including investment in new technology. The regulator's Value for Money standard emphasises that providers should seek on-going improvements in efficiency and effectiveness, not just short term economies. It therefore provides a framework to incentivise providers to deliver innovative solutions to run their businesses more efficiently.
17. In relation to risk management, we would not expect providers to refrain from taking technological risks because the regulatory framework emphasises the importance of effective risk management. It is important that providers demonstrate that they are managing risks effectively but that does not mean refraining from taking such risks.
18. A number of responses to our Innovation Plan consultation said that legal requirements, which mean that rent statements must be posted, were hindering efforts by some providers to move fully to digital communications and resulted in significant additional administration costs. Some also felt that customer contact preferences had shifted from paper to digital communications. As this is a legislative rather than a regulatory matter we have fed this back to DCLG who will be considering this further.

Innovative business models

19. The regulatory standards also allow for a wide range of innovative business models. During the consultation some stakeholders suggested that any regulatory constraints in relation to innovation were more likely to be linked to innovative business models rather than adoption of new technologies. However, this was not an area where significant concerns were highlighted in the consultation. A number of responses commented that any potential concerns in this area were dissipating as a result of the deregulatory measures now included in the Housing and Planning Act 2016.
20. The Housing and Planning Act includes several deregulatory measures following ONS's decision that private registered providers should have been classified as public sector bodies since 2008. The aim of the deregulatory measures is to return private registered providers to a private sector classification in the future. These include replacing the disposal and constitutional consents regime with a notification system. They also include abolishing the disposal proceeds fund. This will provide greater freedoms for registered providers but in the light of these deregulatory changes we are reviewing our overall approach to ensure there is effective regulation in line with our statutory duties. If necessary we will update this Innovation Plan to reflect any changes.
21. One of the feedback comments was that the most disruptive business models in the social housing sector are likely to focus on areas of development such as cheaper construction methods or environmental sustainability. As such planning and building regulations were considered more relevant to disruptive innovation than social housing regulation. Indeed, it is not believed social housing regulation would hinder adoption of such approaches to development in line with our outcomes based approach and no such concerns were raised in the consultation.

Use of new technologies by the regulator

22. Good practice work by the Cabinet Office and BEIS has identified a number of key themes where new technologies could help improve the efficiency and effectiveness of regulation. Of relevance to the social housing regulator are the following three themes:
 - Provision of digital services
 - Automation of simple decisions and analysis
 - Data sharing with regulators and making use of any other new data sources

The information below sets out the current position and our future plans for improvement. Each of these areas will be kept under review to ensure that opportunities to improve our efficiency and effectiveness through innovation are adopted where appropriate.

Digital services

23. Since April 2012, the regulator has collected regulatory data and information from private registered providers via a secure integrated online portal called NROSH+. This provides for the submission and management of over 3,000 returns per year, including one survey undertaken quarterly, three surveys undertaken annually and annual accounts for all large private registered providers of social housing (those owning more than 1,000 social housing units). The NROSH+ web interface allows providers and regulators to track, validate and analyse returns. Regulatory data is instantly available to regulators once submitted. Data collected through NROSH+ provides the basis for Global Accounts of Housing Associations and Statistical Data Return (National Statistics) publications.
24. Since its launch, the regulator has continued to develop the NROSH+ system, seeking to improve its effectiveness as a regulatory tool. Improvements include the way in which the system tracks submissions and the scope of automated data validation checks. Up until recently NROSH+ was serviced through an external software contractor. From April 2016, following a full options appraisal, servicing of NROSH+ transferred to HCA. Following transfer, the system has been reviewed in order to identify opportunities to improve its stability, flexibility and efficiency. Several improvements have been implemented to date, for example increasing flexibility on survey design so this can be more responsive to changing regulatory needs, driven by new legislation for example. Options for more fundamental development will be considered in light of the regulator's transition to a standalone organisation.
25. We have also received feedback during the consultation in relation to NROSH+. Although NROSH+ is recognised as a significant positive improvement, providers have suggested areas that may be explored whereby innovation could generate further efficiencies in regulatory data collection. A number suggested the idea of developing greater integration between providers' in-house data systems and NROSH+, possibly through automation. Other suggestions included adjustments to the NROSH+ system communications function.
26. On an annual basis, in addition to scoping possible system improvements and ensuring surveys are fit-for-purpose, the regulator already liaises with the firms that supply business planning software for the majority of large providers in order to seek to align returns and software tools. Notwithstanding this, following its transfer in-house the regulator will continue to explore opportunities for closer alignment with providers' systems and any other possible improvements.
27. The main source of information about the regulator and our approach is the GOV.UK website. The HCA recently transferred from an independent HCA website to become part of the GOV.UK. This process has helped to cut down and refine the information so it is easier to navigate and search for relevant regulatory information.
28. Finally, we use Microsoft Dynamics customer relationship management (CRM) software to record our regulatory engagement with registered providers including electronic document storage. This system is subject to future review.

Automation

29. The regulator already makes good use of automation of simple decisions and analysis. For instance, we assess the risk profile of registered providers which own 1,000 or more social housing units to determine our regulatory approach and use of regulatory resources. Our risk profiling work employs automated analysis of relevant data and information sources to help determine the appropriate risk level. This is subject to a process of moderation to ensure local knowledge and non-financial factors not captured by the model are also taken into account.
30. Data received from individual registered providers via NROSH+ is also subject to automated data validation checks (see above). These checks aim to support data quality, identifying any issues at the point of submission, before data returns are subject to manual checking. Validations, for example, seek to ensure that every data point is in the correct format and that data is consistent, logically possible and within expected limits. Automated validations are extensive. For example, each provider's Financial Forecast Return (FFR) submitted annually is subject to roughly 10,000 validation checks to drive up the quality of the data.
31. In carrying out annual Stability Checks on providers we primarily extract information from existing regulatory returns, in particular the Financial Forecast Return (FFR) and the annual accounts. We use the FFR to gather medium to long term business planning data in a standard format. Numerical analysis of the data is automated allowing regulators to focus on interpretation of the results.

Data sharing

32. The regulator has relationships with a number of other regulators who also play a regulatory role in relation to registered providers. This includes the following:
 - Charity Commission
 - Financial Conduct Authority
 - Health & Safety Executive
 - Companies House
 - Care Quality Commission
 - Scottish Housing Regulator
 - Welsh Housing Regulator

In some cases, we have data sharing arrangements in place. We are not aware of any other external data sources beyond those held by other regulators which would help in our regulatory work. However, as the external environment changes data sharing arrangements are subject to close on-going review to ensure that any new data opportunities to support our regulatory work are taken.

Conclusion

33. Government focus on Innovation Plans has provided welcome impetus to take a fresh look at innovation in the social housing sector and within the regulator. The process has enabled us to look holistically at our approach both internally and externally. We have also been able to learn from good practice in other regulators as we have developed our Innovation Plans concurrently.
34. We have found wide ranging use of new technologies and innovative business models in the sector. Our initial view, prior to consultation, was that as HCA regulation is outcomes based it allows for innovation in a general sense. The responses to our informal consultation on our Innovation Plan have reaffirmed that view.
35. Deregulatory measures included in the Housing and Planning Act are set to increase freedoms for registered providers, in particular by removing current requirements in relation to disposal/constitutional consents and the disposal proceeds fund. Although driven by the Government's desire to return the sector to a private sector classification in the future these measures could further increase the potential for innovation in some areas.
36. Finally, the use of new technologies by the regulator is reasonably well developed. However, there are areas of potential improvement to our information technology systems such as CRM and NROSH+ which we are keeping under review.

Annex 1 – List of respondents

Accent Group
Accord Group
Adactus
Affinity Sutton
Asra
Bracknell Forest Homes
Byker Community Trust
Chelmer Housing Partnership
Council of Mortgage Lenders
David Tolson Partnership
Family Mosaic
Grant Thornton
Greater London Authority
Housemark
Housing Quality Network
Incommunities,
Red Kite Community Housing
Sustainable Homes
Together Housing Group
Viridian
Wakefield and District Housing
Walsall Housing Group
Watford Community Housing Trust