

Funding Affordable Homes

Social Performance Assessment Framework

Developed by The Good Economy Partnership

July 2015

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# Introduction

Funding Affordable Homes Limited (FAH) is a specialist provider of finance for affordable housing, established by the merchant bank, Salamanca Group. Its social objective is to help tackle the severe shortage of affordable housing in the UK. The Government estimates there is a need to build 200,000 new homes a year to meet housing demand. With over 1.7 million low-income families on local authority waiting lists, registered social housing providers are under extreme pressure to provide more housing. FAH raises private capital and invests it in the building of new housing that is put to work to optimize social good while also providing an attractive investment opportunity.

FAH provides a new source of funding to Registered Providers to enable them to undertake new affordable housing development. FAH uses an innovative financing model that has two differentiators. First, it is financed by investment capital which enables FAH to provide equity-like finance to the affordable housing marketplace. The majority of the funding is from sources who have not previously invested in this sector. Second, FAH has a subsidiary that is itself a registered housing provider and will create a portfolio of affordable homes which will be owned by the FAH fund and provided back to local registered providers to manage. Typically, this will enable providers to build even more new affordable homes. This funding complements existing commercial bank and bond finance and is particularly needed in an environment in which housing providers are faced with cuts in government grant funding and reduced bank lending.

FAH aims to provide investors with long-term, competitive financial returns as well as high social impact. FAH is a social impact investor and is committed to measuring and reporting on its social impact.

## This Document

This document has been prepared to ensure that FAH delivers on its social objective. It is a guide as to how to integrate social impact considerations into all stages of FAH’s investment process. It provides a robust methodology to assess, monitor and report on FAH’s social impact to investors and the wider community. Implementation of this methodology will provide in-depth understanding and insight of FAH’s social value creation both in terms of affordable housing provision and any additional benefits for residents and local communities. Through these policies and procedures FAH is committed to achieving good standards of impact evidence and transparency.

The Good Economy Partnership (GEP) has created the methodology presented in this document drawing on GEP’s extensive experience in designing social performance assessment methodologies for investors spanning social impact investing, private equity and public markets (bonds and equities). Both FAH and GEP recognize that the impact measurement as it relates to social impact investing is an emerging field. We are committed to being actively engaged in this field and will review and refine our approach in line with industry developments and standards. Hence, this document should be seen as a living document that will be reviewed and updated on a regular basis.

# Mission Statement

The mission of FAH is to increase the provision of good quality, affordable housing to improve the lives of people in social need.

# Theory of Change

FAH has developed a Theory of Change to provide a foundation for its impact measurement framework. This Theory of Change has been created together with FAH Board members and senior management staff with the facilitation of GEP. We plan to review this theory of change regularly as we gather evidence of what works and what needs improving and are able to engage with and take into account the views of partner housing providers. The theory of change is presented in Annex 1. Key elements of the theory of change are presented in the diagram below:

**Chart 1: The FAH Model of Social Value Creation**

FAH

**Activities**

**Outcomes**

**Potential Impact**

**Raise capital**

**Funding of new affordable housing and purchase of existing stock to release capital for additional housing**

**Build relations with housing providers and leverage networks with service providers to help maximize social outcomes beyond housing**

**Primary: Improved supply of good quality affordable housing and accommodation**

# affordable housing units built

# individuals housed

Affordable rent (% market rent)

% homes meeting Decent Homes Standard (target = 100%)

**Secondary (depending on nature of the project)**

# construction jobs created Improved community environment, improved education outcomes, health improvements, improved skills and employment opportunities

**More successful and thriving communities**

Individuals/

Households

Community/UK

FAH recognizes that the ambition to achieve an impact of building more successful and thriving communities is not achievable for all projects. However, FAH maintains this bigger ambition as it is well-evidenced that good quality, affordable housing can underpin both improvements in individual lives and communities. We believe such impacts could be achievable for larger-scale projects that are clearly tied into community-level regeneration plans and while the focus of our impact measurement will be on outcomes we will look to demonstrate community-level impacts where it makes sense to do so.

# Social Performance Assessment Process

FAH’s investment approach aims to maximize impact while delivering sustainable financial returns to investors. Social performance is assessed at all stages of the investment process:

The flow chart overleaf summarizes the investment process and what steps are taken to assess, monitor and report on social impact at each investment stage. These policies and procedures are then described.

**Mission Statement in PPM**

**Identifying Social Objectives**

**Identify Potential Project**

**Preliminary Investment Report including results of Social Screen**

**(Using Scorecard & Guidance Notes)**

**Pass**

**Project Progresses**

**Fail**

**Project**

**Rejected**

**External Social**

**Due Diligence**

**Fail**

**Project**

**Rejected**

**Construct / Purchase Homes**

**Residents Survey to collect Initial Baseline Data and Annual Updates for Annual Performance Review**

**Pass**

**Investment Report to FAH Board, if approved proceed to detailed Due Diligence & Contractual Arrangements**

**Pass**

**Proceed to Financial Close & Agreeing Social KPIs**

**FAH Investment Process Flowchart**

**Internal Property and Financial Due Diligence (using FAH Financial Model)**

**Annual Social Performance Review**

**Fail**

**Project**

**Rejected**

**Final Investment Report**

**Fail**

**Project**

**Rejected**

# Social screen: Is the investment opportunity eligible?

FAH’s investment team considers the potential for social impact creation during an initial screening of investment opportunities to assess the eligibility of the project for FAH investment from a social perspective. All funding applications will be screened against six criteria using the scorecard below. Detailed guidance on how to score these criteria is given after the table.

|  |
| --- |
| **FUNDING AFFORDABLE HOMES INITIAL SOCIAL SCREEN** |
|  | **Organisational type:**☐ Non-profit, registered housing provider☐ Charity☐ Local Authority☐ Other…………………………………………………. |  |
| **No.** | **Criteria** | **Score 1 (low)****to 5 (high)** |
| 1 | **Social need:** Are the properties being funded supplying accommodation to families or individuals from LA and/or HA waiting lists or who have been identified by a public authority as having a specific housing need? Organisations serving vulnerable or disadvantaged groups, such as the homeless, disabled, people with mental health needs and the elderly, will score most highly. 1 = properties are not allocated to those on HA/LA lists3= properties are for those on HA/LA list5 = properties are for the most vulnerable e.g. homeless, disabled |  |
| 2 | **Affordability:** Are rents genuinely affordable in the local market context and for individual tenants? Assess the proportion of social, affordable and market rent. Affordable rent is defined by the government as up to 80% local market rent.1 = 100% market rent2 = mix of affordable and market rent/ownership3 = 100% affordable rent/low-cost homeownership/shared ownership4 = mix of social housing and affordable rent5 = 100% social housing/supported accommodation |  |
| 3 | **Potential to deliver social outcomes:** To what extent will the project deliver only primary outcomes – namely quality, affordable homes – or also secondary outcomes that will make a fundamental difference to resident’s lives e.g. health improvements, educational improvements, employment. |  |
| 4 | **Tenant engagement:** To what extent does the organisation involve residents in management and take into account residents’ views to shape services and achieve organisational business objectives aimed at delivering better, more responsive, services? |  |
| 5 | **Quality of management:** Is there good quality HA or private sector management available that will deliver high quality services to residents? |  |
| 6 | **Additionality:** To what extent does FAH funding enable new, affordable housing to be built that would not have been built otherwise? |  |
|  | **TOTAL SCORE** |  |

**The following weights are attached to each of the criteria:**

|  |  |
| --- | --- |
| **Criteria** | **Weighting** |
| Social need | 20% |
| Affordability | 20% |
| Potential to deliver secondary social outcomes | 20% |
| Tenant engagement | 10% |
| Quality of management | 15% |
| Additionality | 15% |
| **Total** | **100%** |

|  |  |  |  |
| --- | --- | --- | --- |
| **Criteria** | **Max Score** | **Weighting** | **Max weighted score** |
| Social need | 5 | 20% | 100 |
| Affordability | 5 | 20% | 100 |
| Potential to deliver secondary social outcomes | 5 | 20% | 100 |
| Tenant engagement | 5 | 10% | 50 |
| Quality of management | 5 | 15% | 75 |
| Additionality | 5 | 15% | 75 |
| **Total** | **30** | **100%** | **500** |

FAH is seeking to work with organisations that are ‘values aligned’ and have a shared commitment to tackling the affordable housing crisis. A project must achieve a minimum weighted score of 300 (60%) in order to be considered for detailed due diligence. Projects with a lower score will be declined unless there is a particular reason justifying further consideration in which case they will be submitted to the FAH Board for discussion and a decision.

**The following section provides guidance notes for the initial social screen of a potential project to establish suitability for progression to detailed social and financial due diligence.** The findings of the social screen will be included in the Preliminary Investment Report to the FAH Board on the basis of which the Board will approve which projects proceed to detailed due diligence.

**Organisational type.** The first consideration given is to the nature of the potential investee organisation in terms of its purpose and governance.  It is expected that the majority of FAH’s funding will be made to Registered Providers (RPs) that are independent, not-for-profit organisations also known as housing associations.  These are third sector organisations.From time to time FAH may also consider funding for other Registered Providers such as Local Authorities that have maintained control of their social housing and that directly supply affordable homes to those in housing need. Such investments will be put forward for consideration by the FAH Board where they deliver good quality affordable housing, improve the lives of people in housing need and are considered important to the overall scale and performance of the Fund allowing the benefits of the Fund to reach more third sector organisations.

**Screening criteria.**

**Criteria 1. Social need: *Are the properties being funded supplying accommodation to families or individuals from LA and/or HA waiting lists or who have been identified by a public authority as having a specific housing need? Organisations serving vulnerable or disadvantaged groups, such as the homeless, disabled, people with mental health needs and the elderly, will score most highly.***

FAH will require confirmation from the local authority, local housing association or development partner that the housing will be/is occupied by individuals or families that have been allocated the accommodation as a result of identified needs.

The needs identified may result from housing assessments indicating specific issues such as homelessness; overcrowding; or special needs which result in inclusion on a public sector waiting list.

Applications for housing developments that are not providing housing for those on LA/HA waiting lists will score a ‘1’ and will be automatically declined.

Organisations that are providing accommodation for particularly vulnerable groups will score more highly. For example, a YMCA that is working with the young homeless would score ‘5’.

**Criteria 2. *Affordability: Are rents genuinely affordable in the local market context and for individual tenants? Assess the proportion of social, affordable and market rent. Affordable rent is defined by the government as up to 80% local market rent.***

FAH aims to invest in new affordable housing. If the homes are all market rent or ownership then the project will score a ‘1’ and be automatically declined. If the homes provided are all affordable rent or low cost home ownership, then the project scores a ‘3’. If the accommodation is all social housing or special needs, the project will score a ‘5’. Any scheme with a mix of market and affordable/social rent or ownership will score a ‘2’. Any project with more than 10% private market rent will require the unanimous vote of the Board to be considered and would require mitigating circumstances that justify the investment from a social perspective. The FAH Board and GEP recognize that mixed-tenure housing development models can have greater social multipliers than purely social housing so are open to considering such opportunities. FAH aims to fund new housing that is affordable in real terms. The Resident’s Survey will be used to monitor the extent to which this ambition is being achieved over time and the findings will feed back into FAH’s screening criteria and the investment decision-making process.

**Criteria 3. *Potential to deliver social outcomes: To what extent will the project deliver only primary outcomes – namely quality, affordable homes – or also secondary outcomes that will make a fundamental difference to resident’s lives e.g. health improvements, educational improvements, employment opportunities or whole communities e.g. through linkages to larger-scale regeneration plans.***

Scoring for this criteria will be based on the potential of the project to deliver not just housing but improvements in resident’s lives and potentially the community as a whole. So, for example, a project that provides housing plus intensive support for a disadvantaged group would score a ‘5’ as would a large scale housing project that was linked to a clear community regeneration plan. A project that delivered only affordable housing would score a 3.

**Criteria 4. *Tenant engagement: To what extent does the organisation involve residents in management and take into account residents’ views to shape services and achieve organisational business objectives aimed at delivering better, more responsive, services?***

The government expects all registered providers, including local authorities, to meet a set of consumer standards. One of the consumer standards is tenant involvement and empowerment. Examples of tenant engagement strategies include:

* setting up tenant panels
* offering training and support opportunities
* allowing tenants to exercise their ‘Right to Manage’
* offering opportunities to manage local housing services, such as repairs and estate management

FAH will request basic information on how the provider is meeting this standard at the outset and provide a score on the basis of an initial appraisal of the level of tenant involvement. FAH will seek to assess the extent to which the provider has a demonstrable track record of working with tenants, residents and other community organisations. FAH will be seeking to identify, and will score highly, organisations with a track record of tenant engagement and a clear commitment to representing and working with tenants and community organisations. This is an area that will be subject to more in-depth assessment during the external due diligence.

**Criteria 5. *Quality of management: Is there good quality HA or private sector management provision available that will deliver high quality services to the residents?***

Where a housing association requests development funding, the following scoring system will be used based on HCA viability and governance standards:

5 = V1/G1

4 = V1/G2 or V2/G1

3 = V2/G2 or V2/G3 or V3/G2

2 = V3/G3

1 = V4/G4 or any other combination with a 4

For a private sector manager to score a ‘5’ they will need to demonstrate customer satisfaction and compliancy delivery in the top two quartiles of the HouseMark measurement system (or an equivalent agreed benchmarking club). If either are in the lower quartile they will score a ‘1’. If one is in the lower medium quartile they will score a ‘3’ and may require to be reviewed by the FAH Board before proceeding to detailed assessment.

**Criteria 6. *Additionality:* *To what extent does FAH funding enable new, affordable homes to be built that would not have been built otherwise?***

FAH aims to provide a new source of funding rather than displace existing sources of funding, such as bank debt or bond issuance. It also aims to create additional homes that would not have been built otherwise. Applicants will need to demonstrate that FAH funding adds value and is creating additional housing that would not otherwise be available. This could be by extending the financial capability of the provider or providing funding with more attractive terms e.g. longer-term, more risk-taking capital. In cases in which FAH purchases existing properties and provides them back to local housing providers to manage, the original provider will be expected to demonstrate that the proceeds of the sale will be used to finance additional new affordable housing or invest in support services to improve community and affordable housing provision. This could be, for example, through presentation of a development plan demonstrating that the proceeds help meet the funding requirement. A clear-cut example of additionality will receive a score of ‘5’.

The results of the social screen will be included in the Preliminary Investment Report to the Board of FAH. If the project is approved by the Board it will proceed to internal due diligence. The FAH in-house team will mainly focus on the commercial due diligence and the viability of the project from an investment perspective including detailed financial modelling using FAH’s financial model. At the same time the external social due diligence will be commissioned.

# External Social Due Diligence: defining and measuring social performance

FAH will contract out the social due diligence to The Good Economy Partnership (or an appropriately qualified individual/organisation). GEP will confirm the project’s eligibility against the screening criteria and will focus on gaining a more in-depth understanding of the nature of the impact to be created and agreeing output and outcome measures (social Key Performance Indicators (KPIs)) with the investee and a process to measure and report on those KPIs.

The external due diligence will include site visits, resident interviews and interviews with other stakeholders where relevant e.g. with support organisations and service providers.

The external due diligence will use a standard methodology focused on gathering information and insight on the following key points:

1. **Contextual information/social need.** Validating the social need the provider is addressing. This will include gathering contextual information on the social need in the local area and verifying that the tenants/residents are individuals from HA/LA housing lists or identified as vulnerable by a public authority. For larger projects, it will also include socio-economic data analysis and mapping of local deprivation as a baseline case.
2. **Social rationale.** Understanding how the organisation is responding to social need, the social impact they intend to achieve and the merits of their business model and approach. This would include gathering any evaluations of their work or research that underpins their model or independent points of view.
3. **Tenant engagement.** Understanding what specific steps are taken to engage tenants/residents and prospective tenants in shaping services. Gathering evidence on tenant engagement protocols, how this is integrated into governance and what happens in practice.
4. **Housing provision.** Confirming how the investment creates additional and improved housing availability and over what time scale. Is such housing additional to what would be available otherwise? Is the funding additional to traditional sources?
5. **Service provision.** Understanding what activities the provider undertakes beyond housing to provide opportunities and services to their residents and the local community. For example, does the housing provider/partner provide services that help residents develop skills and live more independently? Does the housing provider/partner have the proven capability and experience to deliver this type of support? Is there a track record of success?
6. **Outputs.** Confirming the nature and quantity of housing units to be delivered by the provider with FAH funding and any other quantifiable outputs related to secondary outcomes.
7. **Intended outcomes.** Identifying and agreeing specific outcomes from FAH’s investment including agreeing a theory of change specific to the individual project. All projects will be expected to deliver primary housing-related outcomes. Some projects will deliver secondary outcomes e.g. related to support services or community regeneration. The project-level theory of change and outcome metrics will provide a framework for impact monitoring and reporting at a project level that is linked into FAH’s overarching Theory of Change (see Annex 1).
8. **Assumptions.** Understanding any assumptions and risks to achieving intended social outcomes. Ensuring that risks are understood and a mitigation plan is in place, if needed.
9. **Outcomes measurement.** Understanding the extent to which the organisation already measures, assesses and reports on its social impact and the rigour of its approach, specifically:
	1. What outcomes are measured?
	2. How are they measured (what measurement tools are currently used)?
	3. What data is collected?
	4. How is data interpreted and used to improve service delivery?
	5. Are any third party validations carried out?
	6. Is there data on performance relative to similar organisations?
	7. How is impact evidence used? The extent to which the organisation reviews their social impact evidence and uses it to adapt and improve their work.
	8. Are tenants/residents and other stakeholders engaged in the evaluation process?
10. **Performance.** Overall assessment of the organisation’s social impact performance and potential to create social impact with FAH funding.

An external due diligence report will be written on each investment. This will include an analysis of the evidence of the social need and an agreed theory of change for each investee and the metrics to be reported. It is expected that each project will report on the following core metrics:

* **Additionality:** Number of housing units built; Number of individuals/families housed
* **Tenure**: % rented (with breakdown of social, affordable and market rent) **and** % home-ownership (and nature of ownership)
* **Affordability**: rent as % household income; rent as % local market equivalent
* **Quality of housing:** % homes build meeting Decent Homes Standards

In addition, where relevant, additional secondary outcome metrics would be selected. These are likely to be related to support services and include:

* People with disabilities: Number of people with support for specific needs and able to remain in own home and live independently as a result
* Homeless:
	+ Number of rough sleepers housed in secure accommodation
	+ Homeless and vulnerably housed people accessing support to address mental health, substance abuse and other issues
	+ Individuals finding suitable training and employment opportunities with support to sustain these
	+ Individuals move on to live independently as a result of support

These metrics are aligned with Big Society Capital’s Outcomes Matrix which is helping define and set standards for outcomes measurement for the social impact investing industry.

GEP will design and build a dedicated **database** to input and allow analysis of data on social KPIs for each project and the portfolio as a whole over the life of the Fund.

# Investment Decision: ensuring social performance is embedded

The results of the external due diligence will form the basis on which FAH and the investee confirm quantifiable targets for the core housing-related metrics as well as agree the extent to which secondary outcomes will be delivered and methods to evaluate these. This will include informing the provider of the Annual Residents Impact Survey and getting their buy-in to this process. These reporting requirements will be included in the local management agreement. GEP will work with FAH to develop standard impact evaluation and reporting clauses to be included in legal agreements.

# Social performance monitoring and reporting

## Investee Reporting

All investees will be required to report to FAH on an annual basis in accordance with the agreed KPIs. In some cases, investees will be able to provide in-depth impact monitoring information, for example, organisations that provide accommodation for the homeless and use tools such as the Outcomes Star to track the changes in their residents’ lives.

## Annual Residents Impact Survey

FAH is committed to contracting a qualified research firm to carry out an annual survey of residents in the properties that it owns. This will be carried out in collaboration with the housing provider/partner organisation.

The residents survey will be an important tool to understand and track the extent to which FAH is meeting its final goal of helping to improve residents’ lives. Through the survey FAH can understand what improvements have happened in people’s lives over time so providing an important ***longitudinal impact assessment***.

Resident surveys will be carried out on an annual basis to assess the degree to which tenants are experiencing positive changes in their lives related to the key outcome areas. During the first year of the operations, GEP will work with a professional survey firm to design the survey questionnaire. This will include questions designed to gather the following information:

* **The situation of the individual/family prior to moving into the property**, including household income, employment status, the nature of their previous accommodation and whether it was temporary accommodation. This would evidence the extent to which FAH funding has helped move people into more secure accommodation.
* **Affordability - the amount of rent paid now compared to how much was paid previously**. This will enable GEP to calculate affordability and improvements in household income as a result of any money saved on rent. This could be aggregated to provide a total amount saved at a FAH portfolio level.
* **Improvements in secondary outcome areas**, including access to education, mental and physical health, employment, financial stability, local crime.
* **How these improvements have affected the individual’s sense of well-being**.

The survey will also have questions that provide an opportunity for tenants to voice how they would like the quality of accommodation or services to be improved.

# Annual social performance review and report

GEP will carry out an annual social performance review and draft an independent annual report for investors and the wider community. This review will comprise an evaluation of FAH’s achievements during the year, results and lessons learned.

The review will provide an analysis and synthesis of both quantitative and qualitative information from project-level social performance reports, the resident’s survey and structured interviews with the housing providers and any other key stakeholders for a selection of projects.

GEP will integrate methodologies that monetize components of social value creation in the performance analysis as far as they are considered to add value, in particular HACT’s Well-Being Valuation methodology. This approach enables a monetisation of the types of outcomes FAH is planning to track, such as improved health, employment, reduced crime etc. The Residents Survey would make it possible to attach values to the actual outcomes observed. In this way, FAH could assess the overall social value created for each project and have this as an additional standardised measure of performance. GEP will seek to design an overarching methodology for FAH to assess the social value of its investment portfolio over time which incorporates the data gathered.

The annual review will also provide an opportunity to gather feedback on how the FAH funding model is viewed by housing providers. To what extent has it provided a suitable form of finance that enabled the housing provider to carry out housing development that would not have happened otherwise? Has it had an impact in terms of increasing financial capability by reducing dependency on grants or more expensive forms of finance, increasing borrowing capacity or releasing capital for new housing development. For larger-scale projects, GEP will also interview local authorities (LA) to understand their view of the project and its benefits to the LA. These findings will be used to provide feedback on the overall effectiveness of the FAH funding model and its value added.

The annual review is expected to include the following:

* FAH’s social mission and Theory of Change
* Performance to date in terms of the amount of capital raised and number and value of housing projects financed
* Portfolio summary with segmentation of projects by type (e.g. affordable home ownership, specialist accommodation for the disabled, homeless hostel)
* Geographic breakdown of projects (including a map linked to deprivation/housing need)
* Individual projects performance reviews including results for both affordable housing measures and secondary outcomes where relevant
* Findings from the Residents Survey
* Findings from interviews with housing providers
* Overall portfolio results and assessment of social performance to date
* Strategic findings and lessons learned
* Forward look

The annual report would be produced within four months of the end of each operational year. Assuming a fund launch in July 2015, the first annual report would be produced by November 2016.

**Annex 1**

**Societal Impact**

**More successful and thriving communities**

**Secondary outcomes (these will differ depending on the nature of the project):**

# construction jobs created Improved community environment, improved education outcomes, improvements in mental and physical health, improved skills and employment opportunities particularly for people living in poverty or disadvantaged

**Support provision**

Effective partnerships created with housing providers to meet quality standards and to deliver services to support most vulnerable tenants

**Primary outcome: Improved supply of good quality affordable housing and accommodation**

# affordable housing units built

# individuals housed

% social, affordable & private rent

# homes meet Decent Homes Standard

**Funding Affordable Homes (FAH) Theory of Change**

**Final Goal:**

**What FAH is trying to achieve**

**Outcomes:**

**Changes that FAH aims to deliver**

**Outputs:**

**What FAH provides**

**Activities:**

**What the FAH is offering**

**Enabling factors:**

**Things that have to exist for the changes sought to be realised**

**The lives of people in social need improve**

FAH raises investment capital from investors with aligned interests

Build relations with housing providers and leverage networks with service providers to maximise outcomes beyond housing

**Finance provision**

# of projects financed

£ invested

# of providers by type (HA, LA, charity,

private provider)

# projects by geography/social need

# & value of units owned by FAH

Funding of new affordable housing and purchase of existing stock to release capital for additional housing