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Raising the Benchmark

Best Practice Performance Management for Community Housing

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KINETIC WHITE PAPER SERIES {3}

Introduction

This paper details the key issues with performance management, giving guidance to community housing managers and directors on best practice. It outlines difficulties with performance measurement techniques when applied to not-for-profit organisations, and shows some of the ways the data can be used by both housing providers and external stakeholders.

Examples are provided of community housing Key Performance Indicators (KPIs) used by regulators in England, in Victoria, and by one of the larger housing organisations for their own management purposes. This allows a reflection of different approaches, for example using 'balanced scorecards' and integrating the results of tenant satisfaction surveys. Finally, guidance is provided on approaches that give maximum performance management benefits to community housing providers.

Kinetic White Papers provide an overview of key issues facing the community housing sector to stimulate debate and help decision making. The views expressed in this paper are those of the author.

KEY POINTS

- There is a difference between KPIs required by regulators, and the KPIs that are really important for managing community housing.
- 'Less is more' - organisations should select a small number of key performance indicators, and display data in an easy-to-read way.
- Community housing leaders should be pushing for more streamlined data reporting and KPI setting approaches by government.

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About the Author

Tony Gilmour is an affordable housing consultant, working as Project Manager for Elton Consulting. In the academic field, Tony's doctoral research at the University of Sydney compared approaches to expanding the community housing sector in Australia, the United States and Britain.

During time spent undertaking his MBA at the University of California, Berkeley, Tony gained experience in performance management approaches for not-for-profit organisations.

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Background

The increasing importance of performance management by community housing organisations is part of a much broader transformation in the way the state provides services that has been underway since the 1980s. This is sometimes referred to as 'New Public Management' - an umbrella and contested term for the state becoming increasingly commercialised, and prepared to use private sector management and control techniques.

More responsibility for social and human service delivery is passing to not-for-profit organisations. For example, in 2009 Australian Housing Ministers agreed that the proportion of social housing run by community housing providers should more than triple - to 35 per cent - by 2014. Many New Public Management concepts are spreading from the public to the not-for-profit sector, where organisations are being encouraged to be more 'business like' through using private sector tools like performance management.

There has been a longstanding use of performance tools by commercial businesses. Classically these just considered financial matters - sales or profit generated, perhaps calculated as a ratio compared to the assets or capital base of the business.

From the late 1980s, there has been a greater emphasis on 'business excellence models' which supplement financial measures with more esoteric measures of customer satisfaction and quality. Plenty of books are available detailing the latest management fashion - from balanced scorecards to Total Quality Management (TQM).

> *"Performance is a multifaceted, fluid, problematic, ambiguous and contested concept"*
>
> (Paton, 2003, p.6)

Although how a not-for-profit organisation performs is important, affecting real outcomes for disadvantaged people, measuring performance is a particularly slippery concept. This is mainly because there is less relevance than for a business in measuring profitability or return on capital. Not-for-profit organisations need to be financially viable, yet their main 'outputs' are social rather than economic.

Furthermore, like other terms such as 'housing affordability' and 'homelessness', 'performance' is a social construct. It is not an inherent attribute that can be independently and scientifically verified. Rather, it is based on a set of views held by society at a particular moment in time. Therefore, just as we struggle to quantify housing affordability or count the number of homeless people, it will be hard to reach consensus on how we might measure the performance of not-for-profit organisations.

Understanding performance management

Performance management is a broad concept that could be discussed in general terms at a Board Meeting between the CEO and Directors. However, performance management increasingly relies on performance measures - a set of quantitative numbers and ratios, or scores from tenant satisfaction surveys. In isolation, this type of information is meaningless. Therefore performance measures tend to be benchmarked:

- To compare change over time by a particular organisation. For example, are a community housing's overheads increasing year-by-year as a proportion of income?
- To contrast the performance of various organisations operating in the same sector. For example, which of Victoria's community housing organisations has the highest tenant satisfaction score?

- To benchmark across organisations of differing types. For example, is the interest cover ratio (the surplus cash available to pay bank interest) higher in private or not-for-profit housing developers?
- To achieve a specified figure. For example, community housing organisations operating in a particular jurisdiction may be required to collect at least 95 per cent of rent due from tenants.

Limitations inherent in interpreting performance measurement data soon become clear from assessing the above list. Historical comparisons can be distorted by government policy changes such as moving to different funding models or stock transfer. Organisations can be hard to compare when most in the sector manage fewer than 50 properties while a few others are responsible for substantial portfolios.

Comparing across sectors is dangerous as business models differ - community housing providers have a steady supply of potential customers looking for affordable accommodation, and do not directly compete with each other. Finally, requiring providers to meet uniform targets can be a problem - higher needs tenants might be less reliable payers of rent than 'key workers', and not all providers have the same mix of tenants.

Although performance measures sound similar, they need to be carefully defined to enable benchmarking. Accounting terms such as 'interest cover ratio' and 'return on assets' can be calculated in a variety of ways. Unless tenant satisfaction surveys are carried out using consistent approaches to survey design, collection method, date of survey and minimum response rates, the data will not be comparable. Identifying what proportion of tenants are 'satisfied' with their provider is more of an art than a science.

Management innovation

One of the more familiar terms in use across the private, public and not-for-profit sectors is *Key Performance Indicator* (KPI). It is a term used by several community housing providers, as the quote from St George indicates.

> *"Other goals for the year ahead include educating the private sector about our business model. To do this we have compiled a business profile for our financial stakeholders which includes key performance indicators of interest. We are also increasing our connection with banks and other financiers and welcome further engagement by this sector"*
>
> (St George Community Housing, 2010 Report, p.9)

Using the term KPIs suggests the senior management team have held a meeting and carefully considered which performance indicators are 'key' to achieving the organisation's strategic goals. I suspect this does not always happen.

Downsides with KPIs is that the number of KPIs usually grows over time, with many organisations having too long a list. What is considered a 'key' KPI for the finance director and funder may not be one seen as 'key' by other stakeholders. Also, it is easier to set a KPI based on what can easily be measured, rather than what is important to the organisation's future.

Mention has been made earlier of innovation over the last two decades in new approaches to performance measurement. These include:

- Higher quality measurement of performance, for example reviewing outcomes or impacts rather than outputs.
- Using performance measures as a tool to make public and not-for-profit organisations more accountable to the public.
- Using benchmarking to identify best practice, and encouraging poorer performers to raise their game.

- Moving towards less financial measures, with more of an emphasis on quality assurance and customer satisfaction.
- Applying performance management to staff by setting personal KPIs, and professionalising training and management development.
- Using *balanced scorecards* which give a fairer weighting between financial and customer service approaches.
- Presenting performance data in a more concise and graphical way using a *dashboard* format, with coloured charts and symbols.

Several of the management innovations - or fads - listed above have been used by community housing providers. However, given the other seismic funding and policy changes taking place in the sector over the last decade there has been only limited time to innovate. Much of the drive to introduce performance measurement has come from regulators, though increasingly the larger housing providers are setting their own agendas.

Who selects housing performance measures?

The choice of performance measures will be influenced by the dominant stakeholders in an organisation. In the private sector, businesses can generally choose their own performance measures. However, they too will be influenced by external pressure from banks, ratings agencies and - in some sectors such as banking, insurance and public utilities - regulators.

For a not-for-profit organisation, stakeholders typically include funders, philanthropists, staff, customers, members and board directors. In community housing organisations, the key relationship is likely to be with the funder - usually a government agency. However, the haphazard expansion of the sector in Australia over the last decade has led to a variety of stakeholders seeking information from housing providers:

- *State funding agencies*. Regular data is required by grant funders and/or asset holding bodies such as Housing NSW (Community Housing Division) and the Office of Housing in Victoria.

> *"The Registrar intends to publish a summary of compliance assessment reports for all registered community housing providers. Reporting the performance of registered community housing providers in a comparative format creates an incentive for performance improvement and encourages compliance"*
>
> (NSW Registrar of Community Housing, Compliance Framework, p.22)

- *State regulators.* In those jurisdictions that have established administrative structures to regulate community housing, operating at arms' length from State Government, separate information needs to be submitted. There is no uniform approach across Australia, though this is currently under consideration with national regulation proposed by Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) by the middle of 2012. Organisations such as Community Housing Limited and Housing Choices Australia, who operate across state boundaries, have to meet the obligations of several state regulators.
- *National funding agencies.* With the launch of the National Rental Affordability Scheme (NRAS) in 2008, the Commonwealth has started to take a role in monitoring the performance of affordable housing delivery. For community housing providers holding properties part-funded by NRAS incentives, data will need to be supplied to the Commonwealth Department of Sustainability, Environment, Water, Population and Communities (SEWPaC).

- *Commercial funders.* Government policy now favours the medium and larger community housing providers raising bank debt to help fund construction of new affordable housing. Banks generally require submission of regular management accounting information, to monitor whether borrowers have met 'covenants'. These are agreements between a bank and a customer that a particular accounting ratio will not be broken. For more information see the December 2010 Kinetic White Paper 'Raising bank finance'.
- *Agency arrangements.* It is not uncommon for community housing providers to manage housing stock and provide tenancy management services for third parties such as local councils or welfare organisations. In both NSW and Victoria there are examples of community housing providers being part of Public Private Partnerships for public housing renewal. These various types of agency arrangements normally have data reporting requirements.
- *Community housing CEOs and Directors.* Several of the sector's leaders have been recruited from the private sector, while others have completed management degrees or hold professional accounting qualifications. Boards are generally skills-based, with a good representation of business people. These individuals are often used to performance management in the private sector, and expect similar approaches by not-for-profit organisations.

The above list shows just how complicated an environment has been created for the Australia community housing sector. Reporting requirements are nothing new for community housing providers. What has changed since 2007 has been the layering of information that needs to be supplied to multiple recipients, often duplicating data sent to differing public and private sector recipients.

As a result of their reporting and monitoring obligations, the larger community housing organisations now employ one or more staff members to manage 'compliance' with reporting requirements. This takes resources away from front-line housing services.

Information companies such as Kinetic Information Systems write software packages to try and streamline data handling, though it is hard to keep up with changing obligations. Many small and medium sized providers choose to make-do with improvised manual records and spreadsheets.

Lessons from the English experience

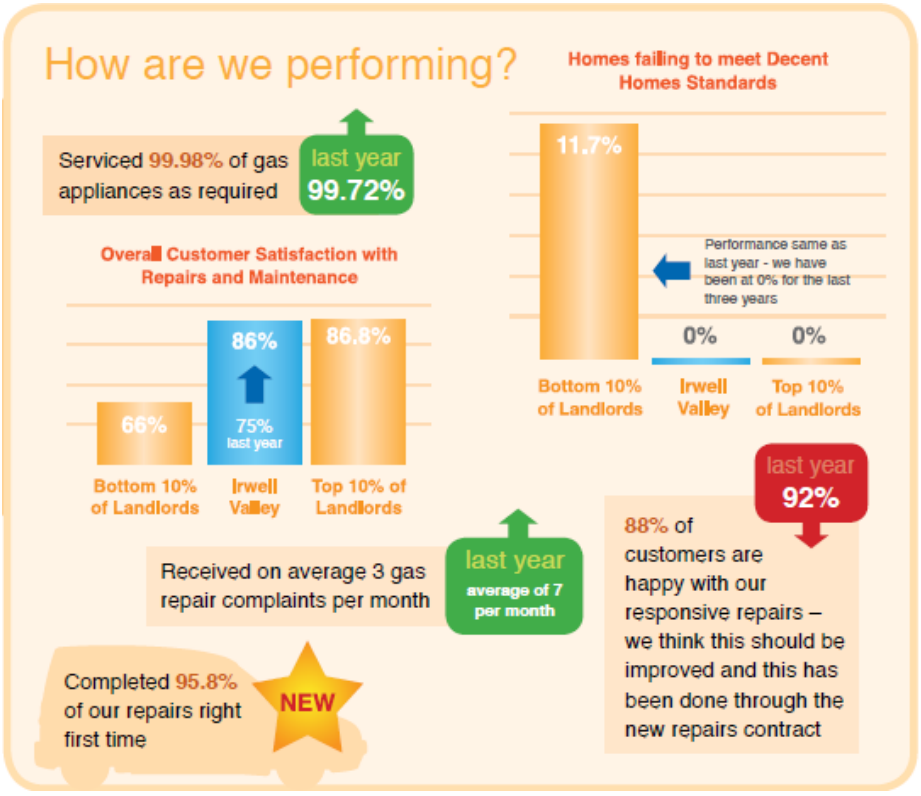
It is worth reflecting on the use of performance management overseas to seek clarity on where Australia may be heading, and whether we can learn from others' mistakes.

England has been selected in part because it started the large scale move to not-for-profit housing providers earlier, and has more years' experience developing housing KPIs. The other reason is the policy and personnel transfer that has taken place from Britain to several Australian jurisdictions in recent years.

English housing association KPIs	Mandatory?
% of dwellings not meeting the 'Decent Homes Standard' (set minimums of property quality)	Yes
% of dwelling vacancies	Yes
Average days to re-let a property	Yes
Rent arrears as % of total rent	Yes
Average energy efficiency of dwellings	Yes
% tenants very or fairly satisfied with landlord services	Yes
% tenants very or fairly satisfied their views taken into account	Yes
% tenants very or fairly satisfied with repairs/maintenance	Yes
% tenants very or fairly satisfied with quality of new home	Optional
% shared owners very or fairly satisfied with overall service	Yes
% shared owners very or fairly satisfied with sales process	Optional

The former regulator of English housing associations, the Housing Corporation, has been collected extensive data on housing providers for at least 20 years. The current regulator, the Tenant Services Authority (TSA), requires completion of an annual Regulatory and Statistical Return which runs to 35 detailed pages for larger providers managing over 1,000 properties, and 14 pages for smaller providers. Following a period of consultation in the mid 2000s, a new set of 11 Performance Indicators were issued by the regulator in 2008 for larger housing associations.

The English KPIs in the table show the importance of customer service measures - over half the indicators rely on annual tenant and shared-owner surveys. There are also two KPIs about building quality, framed around the Government's broader environmental and social goals - the Decent Homes Standard was a housing policy introduced in the year 2000. England therefore uses a typical 'balanced scorecard' approach of both quantifiable KPIs and qualitative opinions.



Irwell Valley Housing Association, England

Of note to Australia is that only 'large' not-for-profit housing providers with more than 1,000 properties need to submit KPI data. In part this is due to clear size differences in organisations between the two countries.

However, if the English approach was followed in Australia, only around 20 community housing providers would need to report KPI information. English tenants can search the regulator's website, obtain certain KPI data, then benchmark against averages for other housing associations operating in the same local area. Many housing providers make available more detailed KPI information, with the example shown of one organisation using a 'dashboard' approach.

In order to allow English housing associations to benchmark their performance against other organisations in the sector, in 1999 'HouseMark' was set up by the main professional body (Chartered Institute of Housing) and trade association (National Housing Federation).

For a fee, HouseMark can provide comparative information on a whole series of efficiency measures, for example how many properties each tenancy manager looks after. This encourages managers to implement performance improvement programs.

Australian performance measures

Community housing regulation remains a state responsibility, with currently Victoria and NSW having the most advanced - and complicated - regulatory procedures. Victoria has been chosen as a case study as the performance monitoring procedures are fully implemented.

Victorian community housing KPIs
Board meetings convened as a % of scheduled board meetings
Board members attending meetings as % of total board meetings
Date of board approval of annual budget and business plan
Staff turnover as a % of total staff numbers
Senior staff turnover as a % of total senior staff numbers
Average number of days a property was vacant
Rents foregone due to property vacancies as a % of total rent charged
Rent arrears as % of total rent
Arrears written off as bad debts as % of total rent charged
Annual evictions as a % of total tenancy exits
Tenancies maintained as a % of total tenancies
Proportion of tenancies owing more than 8 weeks rent at year end
Complaints resolved within 30 days as % of all tenant complaints
% tenants satisfied with housing services
% tenants satisfied their views taken into account
% urgent repairs completed within 24 hours
% urgent non-repairs completed within 14 days
% tenants satisfied with quality of maintenance

The Victorian Registrar has monitored community housing performance since 2006-07 by assessing Key Performance Measures collected through an annual statistical return. Data needs to be supplied by all organisations in the sector - both housing associations and housing providers. The 18 categories in the table are in addition to financial information which is separately collected and analysed.

Summarised information is presented annually by the Victorian Registrar showing how the sector has developed. Individual community housing providers do not need to make this public, so it is not possible for tenants to make comparisons.

Nor is direct benchmarking possible, although it would be possible for an individual organisation to compare how their score differs to the average across the sector. In some charts the actual KPI scores for each of the housing associations in the sector is given, though the name of the organisation not revealed.

In contrast to the English approach, Victoria has adopted a more detailed set of questions and drilled-down to more operational issues such as board meeting frequency and staff turnover.

There are a number of KPIs which address service quality, and some usage of tenant surveys. However, annual tenant surveys are not compulsory and response rates are as low as 8.7 per cent which indicates the data may not be reliable.

Best practice performance management

A comparison in the use of KPIs between the approach in England and Victoria reveals a number of important differences:

- If other Australian jurisdictions adopt the Victorian approach, there could be issues with excessive compliance burden. The Victorian Regulator collects KPIs for all community housing organisations, whatever their size, and in more detail than in England.
- Although tenant survey data is used in Victoria, the role of consumer feedback is less developed than in England and collection methods more haphazard (though this is changing). Less use is made in Victoria of newer approaches to performance management.
- Transparency is lower in Victoria, effectively excluding a number of stakeholders - particularly tenants - from being better informed.
- Straightforward benchmarking is not possible between community housing organisations in Victoria, and impossible with housing groups in other jurisdictions. This is likely to limit opportunities to push for productivity improvements.

It is important for community housing senior managers to appreciate that the KPIs required by various government agencies are effectively a compliance duty. They do not give meaningful guidance as to which performance measures are 'key'. This is particularly the situation as Australian community housing providers are far more diverse in their activities, asset ownership and funding models than countries such as England with a longer-established sector.

CEOs and Directors need to establish a more succinct list of KPIs from the larger number of KPI style information they submit to external agencies. In particular, they need to select KPIs that relate to the both the organisation's business activities and strategic goals. KPIs for a community housing organisation undertaking large scale affordable housing development using NRAS funding will be very different to an organisation managing tenancies on properties leased from the state.

Of the 10 largest community housing providers as at June 2010, a review of their annual report has revealed very few mentions of performance management. It is possible that this is due to a fear of disclosure of information that senior management consider to be commercially sensitivity. More likely it indicates that a culture of performance management has not yet become deeply embedded. St George Community Housing are said to be working on KPIs, though only Bridge Housing publishes a list of year-on-year KPIs for comparison.

Bridge Housing KPIs	
Tenant satisfaction	% tenants satisfied with the organisation
Service development	Total housing properties
Finance management	Staff costs as % total revenues
	Property costs as % of total revenues
	Admin costs as % of total revenues
	Cash at end of year
	Net profit
	Reserve for future maintenance
	Retained profit
Housing management	% arrears
	% market rent loss via voids
	% market rent loss via vacancy
	Tenants exiting due to Possession Order
Human resources	Ratio of staff to lettable properties
	Number of full time equivalent staff

The approach shown in the table is a good indication of how KPIs could be of assistance to medium and larger sized community housing providers. There is a strength in using a 'balanced scorecard' of financial, size and business efficiency measures. Importantly, by being open about their KPIs, Bridge Housing can convey more clearly to their stakeholders the issues that senior management consider to be business critical.

Now that Nation Building stimulus money is largely spent, and NRAS incentives on hold, community housing providers are going to need to focus more carefully on the efficiency and effectiveness of their existing business operations. This will be the time when carefully considered performance management procedures will be required.

Further reading

Paton, R (2003) *Managing and measuring social enterprises*. London: Sage.

Victorian Housing Registrar (2011) *Sector performance 2009-10*. Available at www.housingregistrar.vic.gov.au

Website of the English housing regulator, the Tenant Services Authority, www.tenantservicesauthority.org