

THE
GOOD
ECONOMY



TOWARDS AN APPROACH TO IMPACT REPORTING FOR INVESTMENTS IN SOCIAL AND AFFORDABLE HOUSING

JULY 2021

ABOUT BIG SOCIETY CAPITAL

Big Society Capital (BSC) is the leading financial institution dedicated to social impact investment in the UK and a specialist impact investor in UK housing. Since inception in 2012, BSC has committed almost £150m to help catalyse and scale innovative business models providing homes for the most vulnerable and unlocking impact-led capital from institutional investors to scale business models that can drive systemic change.

Our vision is to help build a housing system centred on impact that addresses social need and improves lives. Through our investments and work with others we seek to grow and evolve the housing investment market by shaping understanding of best-in-class business models, deepening focus on impact measurement and supporting others to allocate more effectively to impact outcomes.

ABOUT THE GOOD ECONOMY

The Good Economy (TGE) is a leading social advisory firm dedicated to enhancing the contribution of business and finance to inclusive and sustainable development. Formed in 2015, TGE has established itself as a trusted advisor working with private, public and social sector clients. We provide impact measurement, management and reporting services that help our clients to understand, enhance and communicate their impact with integrity and confidence. We currently provide impact services for affordable housing investment managers with over £3 billion assets under management.

We also contribute to thought leadership through our collaborative projects. Our intention is to support the development of impact investing so it scales with integrity and delivers meaningful social change and positive place-based impact.

PROJECT GROUP MEMBERS

Association of Real Estate Funds (AREF)
BMO Real Estate Partners
Civitas Investment Management
Funding Affordable Homes
LaSalle Investment Management
M&G Real Estate
Man Group
Nuveen Real Estate
PGIM Real Estate
Resonance Limited
Triple Point Investment Management
Trowers and Hamblins

PROJECT TEAM

The Good Economy

Sarah Forster – CEO
Andy Smith – Head of Housing Impact Services

Big Society Capital

Anna Shiel – Head of Origination
Drew Ritchie – Investment Director

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The growth of responsible private investment in affordable housing in recent years is an important development for the delivery of new affordable homes. Through our investment strategy Homes England is working with partners to actively support inward investment in housing. With investors increasingly looking to deliver positive social, environmental and financial returns there is a need for a common language and methodology for how fund managers report on the positive impact this kind of investment can make.

The proposals by Big Society Capital and The Good Economy in this report go a long way towards building an effective way to compare housing investment funds and support the sustainable expansion of this important source of funding which will be critical to building the homes this country needs in the years ahead.

– Harry Swales, Chief Investment Officer, Homes England

FOREWORD

Big Society Capital and The Good Economy believe now is the time to set new norms to ensure private capital is a positive force in tackling the need for more social and affordable housing.

The UK affordable housing sector has a clear mission: to supply, quality, and affordable homes across the UK to the millions of people who need them. As the need for new sources of finance grows to meet the rising challenges of homelessness, social care and the continued undersupply of genuinely affordable homes, the sector requires capital markets and capital partners that support and share in this mission.

Long-term capital from institutional investors is well-aligned to the long-term nature and needs of the social housing sector and much of the current funding is characterised by strong and productive partnerships with investors based on trust and shared objectives. However, this is not automatically the case. A confluence of factors has led to growing investor interest and capital flows and not all investment models that have emerged pass this test. Moreover, the financial headwinds of decarbonisation, building safety and the consequences of the Covid-19 pandemic mean there's never been a more important time for private capital to play a positive role in funding the housing sector.

We believe that the market for investment in affordable housing needs to be underpinned by “rules of the game” to help ensure that intentions are always clear, incentives are aligned, and principles of transparency and accountability are promoted and maintained. Now is the time to set these norms, to mitigate the negative risks, and encourage investment flows that make a positive contribution to increasing the supply and quality of affordable housing over the long-term.

Big Society Capital and The Good Economy have therefore sought to partner with sector stakeholders to establish some of these new norms and best practice, building them around the linked practices of Environmental, Social and Governance (ESG) and Impact Management. This started with the publication of the ESG Sustainability Reporting Standard (SRS) in November 2020 as a voluntary reporting standard, covering 48 criteria across ESG considerations such as affordability, safety standards and energy efficiency.

This report “**Towards an Approach to Impact Reporting in Social and Affordable Housing**” now presents a common approach to impact reporting developed in partnership with investment fund managers investing in social and affordable housing. The purpose of this framework is to identify and characterise the opportunities for impact additionality that emerge in partnerships between housing investment funds and housing providers, and to then report on that impact in a consistent and transparent way

Lastly, there's a recognition across the sector of some opaqueness and lack of shared understanding about the nature and range of investment models that exist, what constitutes ‘good’ and ‘bad’ practice and the risks and opportunities of ‘equity-type’ capital. This paper's sister publication “**A White Paper: Models of investment into Social and Affordable Housing**” seeks to invite a sector conversation on these issues and proposes a descriptive framework for navigating this landscape.

The aim of these two reports is to lay the foundations for an affordable housing investment landscape that always supports the housing sector to deliver on its mission and is underpinned by shared norms that promote transparency and accountability. It's a sobering fact that approaching 100,000 households spend each night in temporary accommodation in the UK, double the number seen 10 years ago. Responsible, private capital has the potential to significantly support the housing sector's efforts to address the housing crisis faced by these families and many more throughout the UK.

As the need for new sources of finance grows to meet the rising challenges of homelessness, social care and the continued undersupply of genuinely affordable homes, the sector requires capital markets and capital partners that support and share in this mission.

INTRODUCTION

This report provides a consistent approach for housing investment funds to assess and report on how they are making a positive difference for people and the planet – allowing managers to demonstrate their impact credentials and others to compare the impact performance of different housing investment funds.

The overarching goal is to grow and strengthen the market by increasing transparency and improving market information on impact performance that will encourage the increase of capital flows in ways that help tackle the UK's housing crisis.

WHO IS THIS FRAMEWORK FOR?

The past few years have seen significant growth in real estate investors looking to invest into the social and affordable housing sector,¹ many of whom are pursuing impact investing strategies which seek to deliver positive social, environmental and financial returns. However, many housing investment fund managers have found that there is no consistent and comparable way to measure, report and understand their impact.

This framework is therefore aimed at fund managers who are investing in social and affordable housing. The consequent impact reporting should then be useful to asset owners interested in comparing the impact objectives and performance of housing investment funds. Equally it should also prove valuable to housing providers such as Registered Providers (RPs), better equipping them with the data to identify suitable long-term investment partners aligned with their mission.

WHY IS A COMMON IMPACT REPORTING APPROACH NEEDED NOW?

There are three broad drivers behind the need for a common reporting approach:

- **Increased mainstreaming of ESG and impact:**
There is a long track record of debt investment into social housing providers – including mainstream banks, newcomer lenders and institutional debt investors. Many of these are looking for greater clarity on how to assess the ESG and impact performance of investee housing associations, which led to the development of [The Sustainability Reporting Standard](#) which this impact reporting approach builds upon.
- **New investor entrants into social and affordable housing:**
The relatively recent inflow of equity capital into the social

and affordable housing market has led to a demand from both investors and observers for a better understanding of the approach to impact measurement and reporting. In particular to understand and assess the impact additionality of equity investor capital.

- **An international context of increasing standardisation of ESG and impact measurement within the impact investing community and financial sector more broadly:²**

Standardisation of reporting: There are a growing number of initiatives across the wider investment landscape seeking to standardise sustainability and impact reporting. The impact reporting approach presented in this paper takes a specific sector focus and was developed through a practitioner-led partnership of ten housing investment funds.

Regulatory requirements: there is an evolving collection of global and regulatory reporting requirements being placed on investors such as the Financial Reporting Council's 2020 UK Stewardship Code,³ the incoming EU's Framework Regulation⁴ and the UK Roadmap towards Climate-Related Financial Disclosures.⁵ Sector alignment around interpretation of these growing demands is important to help facilitate convergence around key metrics and ensure the reporting and disclosure burden is minimised.

HOW THIS SHOULD BE USED – AND WHAT NEXT?

This publication is the product of a working group of fund managers convened in 2020 and marks the end of the 'Design' phase of this initiative.

The project is now moving onto the 'Test' phase, with housing investment funds invited to adopt and test the approach. This involves integrating the relevant components of the framework into their measurement and reporting plans and fulfilling the reporting expectations as part of their annual impact reports. The Impact Framework and Reporting Expectation are set out in this report.

The overarching goal is to grow and strengthen the market by increasing transparency and improving market information on impact performance that will encourage the increase of capital flows in ways that help tackle the UK's housing crisis.

1. <https://realassets.ipe.com/real-estate/uk-social-housing-investment-case-stacks-up-for-institutional-investors/10050442.article>

2. <https://cdn.ifrs.org/content/dam/ifrs/project/sustainability-reporting/consultation-paper-on-sustainability-reporting.pdf>

3. <https://www.frc.org.uk/investors/uk-stewardship-code>

4. <https://www.simmons-simmons.com/en/features/sustainable-financing-and-esg-investment>

5. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/933783/FINAL_TCFD_ROADMAP.pdf

IMPACT FRAMEWORK AND REPORTING EXPECTATIONS

This section presents the proposed approach to assessing and reporting impact. The approach seeks to identify and characterise the opportunities for housing investment funds to create impact in partnership with housing providers.

The principles and process underpinning the development of the framework are described, followed by the architecture of the reporting approach, including core metrics. This section also presents the International Finance Corporation (IFC)'s Operating Principles for Impact Management (OPIM), which provides a guide to investors on how to embed impact considerations into the investment decision-making process.

Ultimately the reporting framework seeks to drive high standards of transparency and accountability for how and what positive change occurs, mitigate negative risks and support investment flows that make a positive contribution to increasing the supply and quality of affordable housing over the long-term.



PURPOSE

An impact reporting framework is a tool for monitoring and assessing impact performance. Its purpose is to both help 'prove' and 'improve' impact performance, by firstly presenting 'results versus expectations' and secondly using those results to generate information that drives lessons and informs improvements in strategy and operations. It should be considered an essential tool within a broader suite of tools that constitutes a best practice impact management approach.

The purpose of the impact reporting framework presented in this paper is to equip housing investment funds with a go-to set of metrics. The aim is to help drive transparency and comparability across the market. However, these metrics are not an exhaustive list of what matters. It is expected that the metrics set out here will be augmented with fund specific metrics designed to evidence and drive learning in line with fund specific investment objectives and strategies.

The purpose of this framework is not to set targets or benchmarks for individual indicators reflecting thresholds of 'good'. Instead, alignment to the framework metrics provides a platform for housing investment funds to show impact objectives and performance that can then be assessed by them and others in a comparable way.

PRINCIPLES

Three main principles have guided the development of the framework:

- 1 80/20 rule:** The metrics within the framework aim to cover the 80% of activities that housing investment funds have in common. Alignment with other commonly used frameworks such as GRESB and the GIIN Navigating Impact helped to keep to this rule.
- 2 Keep data collection simple:** The metrics are designed to be easy to collect by housing investment funds themselves and ought to be considered standard management information. They typically relate to housing-based outcomes and activities (rather than tenant-based). The approach is designed to place minimum additional data burdens on partner RPs, each of whom will have their own approaches and processes, while recognising that impact will be co-created by the investor, RP and other service providers. That said, some of the most valuable reporting requires housing providers or other third parties to be actively involved, (such as measuring outcomes such as tenant satisfaction and well-being). This 'enhanced' level of reporting is encouraged wherever possible (and discussed further below).
- 3 Reporting needs context:** Few metrics are perfect and none tell a complete story. All metric reporting must be read within the broader context of the investment strategy, what's within the investor's sphere of influence and other available data points. The metrics are therefore designed to be read side-by-side and in combination with the 'statements' recommended by the reporting expectations, allowing a fair and honest interpretation of the information provided.

ESG REPORTING VS IMPACT REPORTING

Historically ESG reporting focused on avoiding harm and mitigating risk as a means of managing reputation.⁶ In recent years ESG performance has become increasingly important to institutional investors and lenders as ESG integration becomes mainstream and increasingly underpins investors' desire to 'do no harm'. More recently, aspirational ESG investors have sought to move away from simply avoiding risks towards pursuing ESG opportunities, for example, seeking to drive up environmental standards beyond minimum expectations.

Impact investments take this a step further and are defined by two key principles:⁷

Intentionality: Achieving positive impact must be integral to the investment strategy. Positive changes on people and planet must be intentionally identified and sought. This can be done by setting clear impact objectives and then pursuing these actively through investment strategies purposely designed to meet those objectives.

Measurement: The positive changes sought must then be measured. This measurement should seek to 'prove' impact by providing evidence of impact achieved, but also 'improve' impact by using this evidence to inform decision making and provide feedback to improve impact performance based on lessons learned.

The diagram below provides a useful graphic of the 'spectrum of capital' and the relationship to ESG and impact integration.

THE 'SPECTRUM OF CAPITAL'

APPROACH	TRADITIONAL INVESTMENTS	RESPONSIBLE INVESTMENTS				PHILANTHROPY
				IMPACT INVESTMENTS		
FOCUS	FINANCIAL ONLY	NEGATIVE SCREENING	ESG INTEGRATION	IMPACT DRIVEN		IMPACT ONLY
				FINANCIAL-FIRST	IMPACT-FIRST	
FINANCIAL GOALS	Target competitive risk-adjusted financial returns			Accept low risk-adjusted returns		Accept partial or full capital loss
FEATURES	Manage ESG risks		Pursue ESG opportunities			
			Intentionality: delivering impact is central to underlying assets / investments			
			Impact investment is measured and reported			
IMP INTENTIONS	MAY OR DO CAUSE HARM		ACT TO AVOID HARM			
			BENEFIT ALL STAKEHOLDERS			
			CONTRIBUTE TO SOLUTIONS			

Credit: Spectrum of Capital, Phenix Capital, <https://www.phenixcapitalgroup.com/what-is-impact-investing>.

6. <https://www.institutionalassetmanager.co.uk/2020/05/27/285970/asset-owners-are-prioritising-esg-way-mitigate-risk-says-morgan-stanley>
 7. <https://thegiin.org/characteristics>

PROCESS

The approach was developed in partnership with 10 housing investment funds, the law firm Trowers and Hamlin's and The Association of Real Estate Investment Funds (AREF). Guidance and feedback was sought from RPs, including input from an impact measurement working group of larger RPs led by the Hyde Group, and small and medium-sized RPs with experience of equity investment. The process was led by BSC and TGE. The following steps were taken in developing the approach:

- 1 Started with asking the questions: Which societal problems is housing tackling – and where are housing investments funds able to contribute positively?** This led to the definition of impact objectives and following that the identification of impact strategies deployed by funds. The expected results of these impact strategies provided the basis for identifying what ought to be measured.
- 2 Workshops and 1:1s with project participants.** Consultation with project members to shape the framework content, starting with proposals from BSC and TGE and iterated based on feedback.
- 3 Technical working groups.** Deep-dive sessions with project members and RPs with technical specialisms in environmental reporting, Specialist Housing (Specialised Supported Housing (SSH), Extra Care and Supported Living) and Transitional Supported Housing. RPs consulted to validate the approaches.
- 4 Commissioned external expertise.** Collaborated with The Smith Institute to develop a proposed approach to person-centred housing affordability measurement.
- 5 Wider-sector engagement.** Hosted a webinar attended by a broader group of 10 fund managers with an interest in the framework. Consulted and tested out the approach with other sector bodies including the National Housing Federation, Homes England and the Regulator of Social Housing.



KEY ELEMENTS

The proposed approach to the management, measurement and reporting of impact performance contains two key elements:

- 1 An impact framework,** designed around a core architecture and proposing specific output and outcome metrics.
- 2 Reporting expectations,** how the housing investment fund reports on their impact.

The impact framework and reporting expectations are contained in Annex 1 and Annex 2. Annex 3 provides a 'mock-up' of the reporting template that adopting funds would integrate into their impact reports (see 'Guidance for Adopters' section).

STRUCTURE OF THE FRAMEWORK

Impact investing requires identifying specific **social or environmental issues** you wish to intentionally affect, before crafting **impact objectives** that reflect the contribution you want to make to tackling those issues. This framework identifies

social issues and corresponding impact objectives aligned with three types of social housing provision. The fourth issue, Environmental Sustainability, is cross-cutting across all housing types.

	TYPES OF PROVISION	SOCIAL ISSUE	IMPACT OBJECTIVES
1	General Needs Social and Affordable Housing	Households unable to rent or buy on the open market	Everyone has access to a secure and affordable home
2	Specialist Housing Specialised Supported Housing (SSH), supported living, extra care and residential care provision	Increasing demand (and shrinking local budgets) for safe and secure specialist housing for people who need additional care or support	Everyone receives social care in quality, appropriate accommodation that meets their needs
3	Transitional Supported Housing (TSH)⁸	Inadequate housing ⁹ for the vulnerable and people in crisis, including the homeless and those at risk of homelessness	Safe and appropriate transitional housing allowing vulnerable people to access support and transition to independent living
CROSS CUTTING ISSUE			
4	Environmental Sustainability	A climate under threat	Climate Stability

Having established impact objectives, the framework is then built around a common set of **impact strategies** that provide the basis for consistent measurement and reporting. Impact strategies are a fund’s ‘route to impact’ and describe a fund’s expected contribution to changing the status quo by improving

social and environmental outcomes. Any fund seeking to execute an impact strategy must start by identifying (1) the social issues; (2) the impact objectives; followed by (3) the impact strategies it wishes to deploy:

FUND STRUCTURE AND GOVERNANCE STRATEGIES	SOCIAL IMPACT STRATEGIES	ENVIRONMENTAL IMPACT STRATEGIES
<ul style="list-style-type: none"> ■ Structure and exit for impact ■ Manage impact risk 	<ul style="list-style-type: none"> ■ Increase supply ■ Target need ■ Deepen affordability ■ Ensure quality services ■ Improve home and place 	<ul style="list-style-type: none"> ■ Mitigate climate change impacts ■ Protect ecology and practice sustainable resource management ■ Reach net zero

8. Definition: "Housing explicitly linked to transitional support, for vulnerable clients such as those at risk of homelessness. Generally (though not in all cases), the support programmes are time-limited, enabling supported people to move on, or to transition into independent living in general needs housing." <https://www.ippr.org/research/publications/at-a-crossroads-the-future-of-transitional-supported-housing>

9. <https://www.ippr.org/research/publications/at-a-crossroads-the-future-of-transitional-supported-housing>

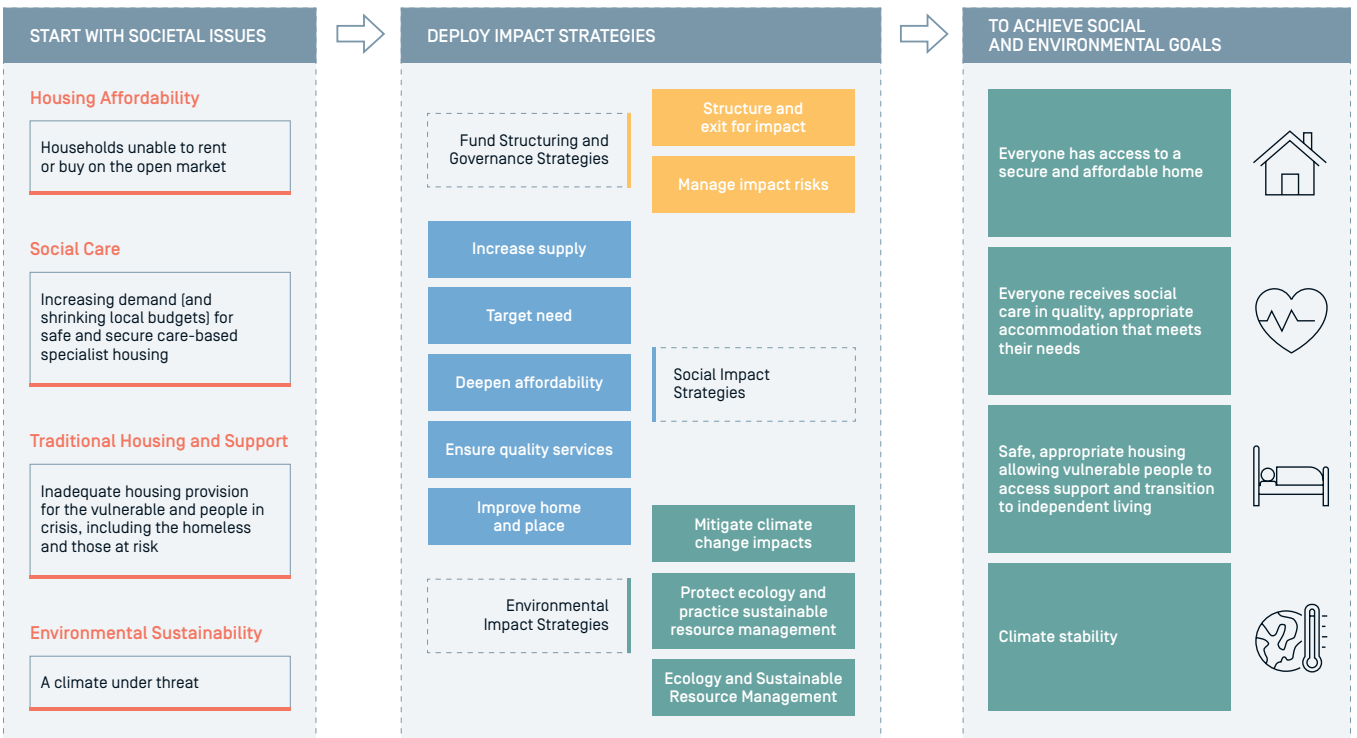
The graphic below shows the core architecture and flow of the impact framework.

Fund Structure and Governance strategies relate to not just 'what' impact a housing investment fund seeks to achieve, but also 'how' that impact is created. This requires considering the relative roles and relationships between the housing investment fund and partner housing providers; the functions and activities undertaken or outsourced; and how financial risks and returns

are shared. Collectively these questions help to understand the 'investor contribution' or 'additionality' delivered by the fund.

The reporting framework also therefore requires 'statements of practice' on fund structure and governance that speak to these questions. These issues are discussed further within this paper's sister publication "Models of investment into Social and Affordable Housing".

IMPACT FRAMEWORK: CORE ARCHITECTURE



THE METRIC SETS AND REPORTING FRAMEWORK

Once a fund has identified its social issues, impact objectives and strategies, it must then plan for how it will measure, assess and report the change that occurs. This has been challenging for some funds and resulted in a large variety of different metrics, even across funds seeking to tackle similar social issues. A single set of common metrics has the benefit of both aligning reporting and standardising measurement practice.

The proposed core metrics are listed below, structured according to the architecture above. These are supplemented by the enhanced metrics found in Annex 1.

The enhanced metrics provide a more detailed view of the difference that the housing investment fund is making, however they require more bespoke information that may be more difficult to access or collect (see following section 'Measuring Tenant Satisfaction and Outcomes'). Housing investment funds are only expected to report against the social issues and impact objectives that are relevant to their investment thesis.

In addition to the quantitative metrics, some qualitative statements are expected to be reported that relate to specific fund structure and governance, specialist housing and environmental impact strategies.

THE REPORTING STANDARD – CORE METRICS		
GENERAL NEEDS	SPECIALIST SUPPORTED HOUSING	TRANSITIONAL SUPPORTED HOUSING
Number of housing units financed	Number of housing units financed	Number of housing units financed
Projected number of individuals housed	Projected number of residents at full occupancy	Projected numbers of individuals housed
% of units financed in areas of constrained affordability	Describe how you ensure provision meets a local need (qualitative)	Breakdown of people housed by previous housing situation
Average % rental discount to market	Describe your approach to rent setting (qualitative)	Breakdown of tenant rents relative to Local Housing Allowance (LHA)
% of sub-market tenures meeting a person-centred affordability test <small>[Affordability is defined in reference to income, see Annex 2: Person Centered Housing Affordability]</small>	% of homes with a life-cycle plan reviewed on a minimum 5-year basis	% of homes receiving inspections in the last 12 months
% of homes certified by a designated building quality mark	% of homes with a CQC rating of 'Good' or higher	% of tenants with an agreed support plan in place
% of properties meeting Nationally Described Space Standards (NDSS)	–	% of tenants sustaining their tenancy
% of renting tenants with security of tenure	–	Average number of hours of support per individual housed

ENVIRONMENT METRICS
Distribution of EPC ratings of financed units
Scope 1 and Scope 2 greenhouse gas emissions per m ² (asset level carbon intensity)
Total capacity of renewable energy production
% of portfolio meeting green building standards
Describe how climate risks are mitigated (qualitative)
Describe your approach to meeting net zero carbon emissions (qualitative)

STATEMENT OF FUND STRUCTURE AND IMPACT GOVERNANCE
The manager shall describe the characteristics of the chosen investment model and policy. The statement of impact practice should explain:
(1) the expected impact additionality of the fund, referencing the impact strategies the investment model enables and facilitates
(2) The approach to exit, including how, consistent with its fiduciary concerns, the fund considers the effect which the timing, structure and process of its exit will have on the sustainability of the impact
(3) The potential impact risks ¹⁰ inherent to the model and how these are mitigated and managed

10. The Impact Management Project's Impact Risk categories are provided as a prompt, however fund managers are expected to independently identify the most significant impact risks attached to their individual investment strategies. <https://impactmanagementproject.com/impact-management/impact-management-norms/risk/>



MEASURING TENANT SATISFACTION AND OUTCOMES

Tenant satisfaction and outcomes are fundamentally important when seeking to capture meaningful information on how housing investment funds are contributing to positive impact on people's lives. However, not all housing investment funds have easy access to this type of tenant outcome data which typically relies on tenant surveys. For smaller housing providers, new for-profit RPs or managers operating across multiple tenures, this may require establishing new processes or procuring third-party support. Most tenant outcome metrics in this framework are therefore considered part of the 'enhanced reporting expectation'.

These enhanced reporting metrics aim to capture the effects of safe, quality, affordable housing provided by RPs. For example, satisfaction with the security of a tenancy, with the health and safety of a home or with the service a landlord provides. These are felt to be good measures of improvements in peoples' lived experience that **are largely within the control of the fund manager, particularly through their selection of housing provider partners**. They are also widely adopted by Housing Associations and soon to be [standardised in a set of core tenant satisfaction measures by the Regulator of Social Housing](#).

However, it is our view that tenant outcomes are the true test of impact creation and therefore must, over time, become standard practice. For those who do choose to collect this data, the [English Housing Survey](#) can provide a helpful counterfactual against which to compare fund performance.

WELLBEING OUTCOMES

Additional, downstream, effects of good quality housing provision might be increases in mental health, financial wellbeing, or sense of community. However, these are subject to many more influences than just an individual's housing situation and can fluctuate positively or negatively with changes in family circumstances,

personal relationships, employment, or other personal circumstances. Therefore, without large datasets and statistical techniques that control for these other factors, these measures tend not to be reliable. The risk is either [1] over-attributing wellbeing impact to housing; [2] or having to explain data that shows wellbeing has not changed or has decreased. However, there is significant value in properly conducted technical research and evaluation and we would encourage more advanced fund managers to consider exploring – alongside their own impact reporting – third-party studies that seek this high standard of impact evidence.

SOCIETAL VALUE AND IMPACT MONETISATION

Improvements in individual wellbeing can have knock-on effects in society. For example, reducing public spending on health provision due to fewer GP visits or on policing due to lower crime. Educational attainment can be improved, employment enhanced and the reliance on benefits reduced. Intentional approaches to procurement and contracting during construction can add further economic and social benefits beyond just those accrued to the individual housed.

Several approaches have been developed that aim to estimate these effects and then attribute financial values to produce an overall estimate of social value. Hyde Group's The Value of a Social Tenancy is one such approach, as is Social Value Portal's National TOMS, while HACT has been deploying monetisation approaches with social housing providers since 2012. These tools and approaches are valuable in 'proving' impact, and especially appeal to established housing associations seeking to tell a simple but powerful aggregate story about their value to society and 'social return on investment'. By drawing upon existing models and datasets they also minimise the burden of data collection across large and complex organisations.

Monetisation may be an interesting area of future exploration for social property funds. However, in a nascent industry, the starting point is to understand the mechanisms for impact creation rather than jump to its wider effects. The impact framework presented here is designed to generate meaningful information that can drive valuable and actionable insights. It should present information that is useful to property funds, comparable for investors deciding where to allocate capital and additive in understanding the potential for this type of capital to deliver positive outcomes and impact. As reinforced throughout this paper, impact additionality requires not just an analysis of what impact was created, but also how it was achieved.

GUIDANCE FOR FRAMEWORK ADOPTERS

SETTING TARGETS

Targets are an essential discipline in good impact practice. They set the expectations against which performance can be compared and provide a basis for reflection and analysis that should drive subsequent learning. It is expected that funds set portfolio level targets across all relevant metrics.

However, targets need not be rigid. Deployment expectations might shift in line with external factors or certain impact strategies taking greater or lower precedence compared to expectations. It is therefore sensible to revisit targets on an annual basis following reporting of the previous year’s activity. Where targets are not detailed, the fund should explain the reasons behind this.

REPORTING PARAMETERS

Fund managers that elect to report using this framework – ‘Adopters’ – are required to do two things: [1] integrate the relevant components of the impact framework into fund measurement and reporting plans; and [2] commit to the reporting expectations of the framework.

To ensure consistency and comparability of reports, adopters should report according to the following parameters:

- Reporting is at portfolio level
- Reporting is within the fund’s annual impact report and may also be integrated into the financial report
- A ‘Comply or Explain’ approach should be applied to all core metrics relevant to the impact objectives the fund is aligned to
- Funds must use the reports to detail key areas of underperformance or learning.

Annex 3 provides a ‘mock-up’ of the reporting template that adopters will integrate into their impact reports.

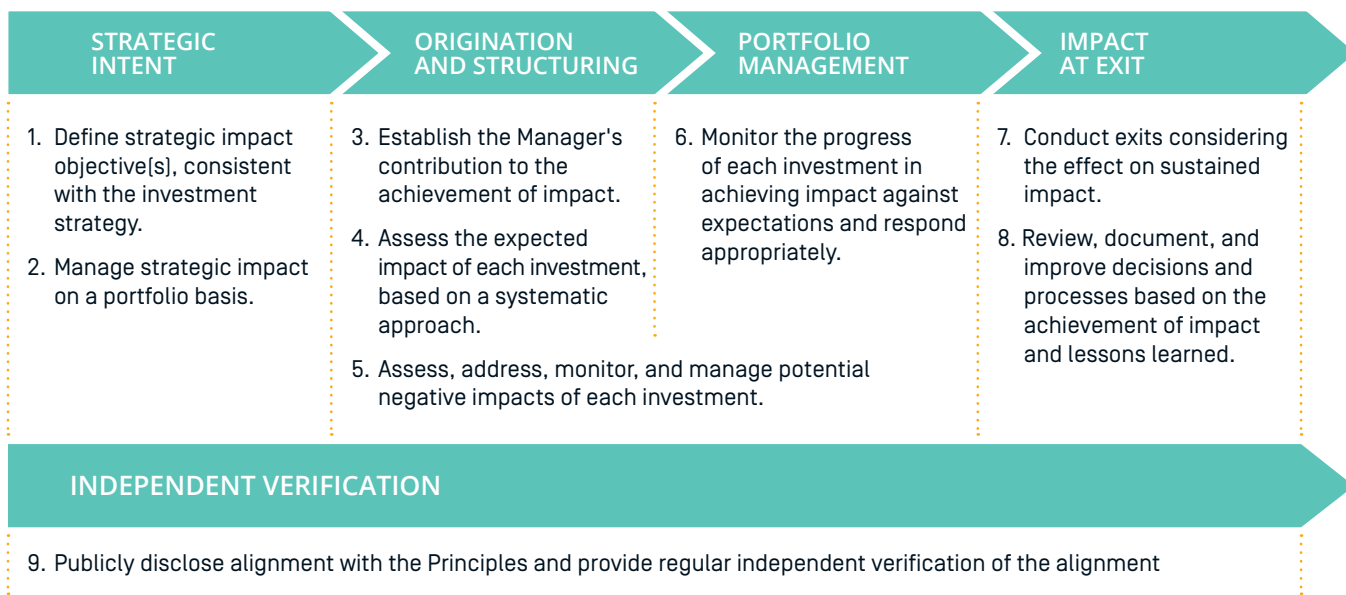
INTEGRATING THE FRAMEWORK INTO IMPACT MANAGEMENT BEST PRACTICE

Impact Management Practice and ‘The IFC Operating Principles for Impact Management’

Impact measurement and reporting are crucial tools in the impact investors toolkit. However, impact investing requires both ‘proving’ and ‘improving’ impact and a question for many investors is how to increase their impact. The broader discipline of ‘impact management’ is required to do this effectively.

Fortunately, a common and best practice discipline has emerged in recent years. The **Operating Principles for Impact Management (OPIM)** issued by the IFC provide a strong reference point for fund managers to build and improve their impact management systems. These principles define the steps needed to integrate impact considerations into an investment process.

The steps needed to integrate impact considerations into an investment process:





Housing investment funds can seek to publicly commit to pursuing impact management best practice by becoming a signatory to the IFC Operating Principles. Signatories publish an annual disclosure statement and provide regular independent verification of their alignment. Big Society Capital became a [signatory in 2020](#) and undertook [independent verification](#) in March 2021. Independent verification is provided by recognised assessors including The Good Economy and Bluemark.

NEXT STEPS

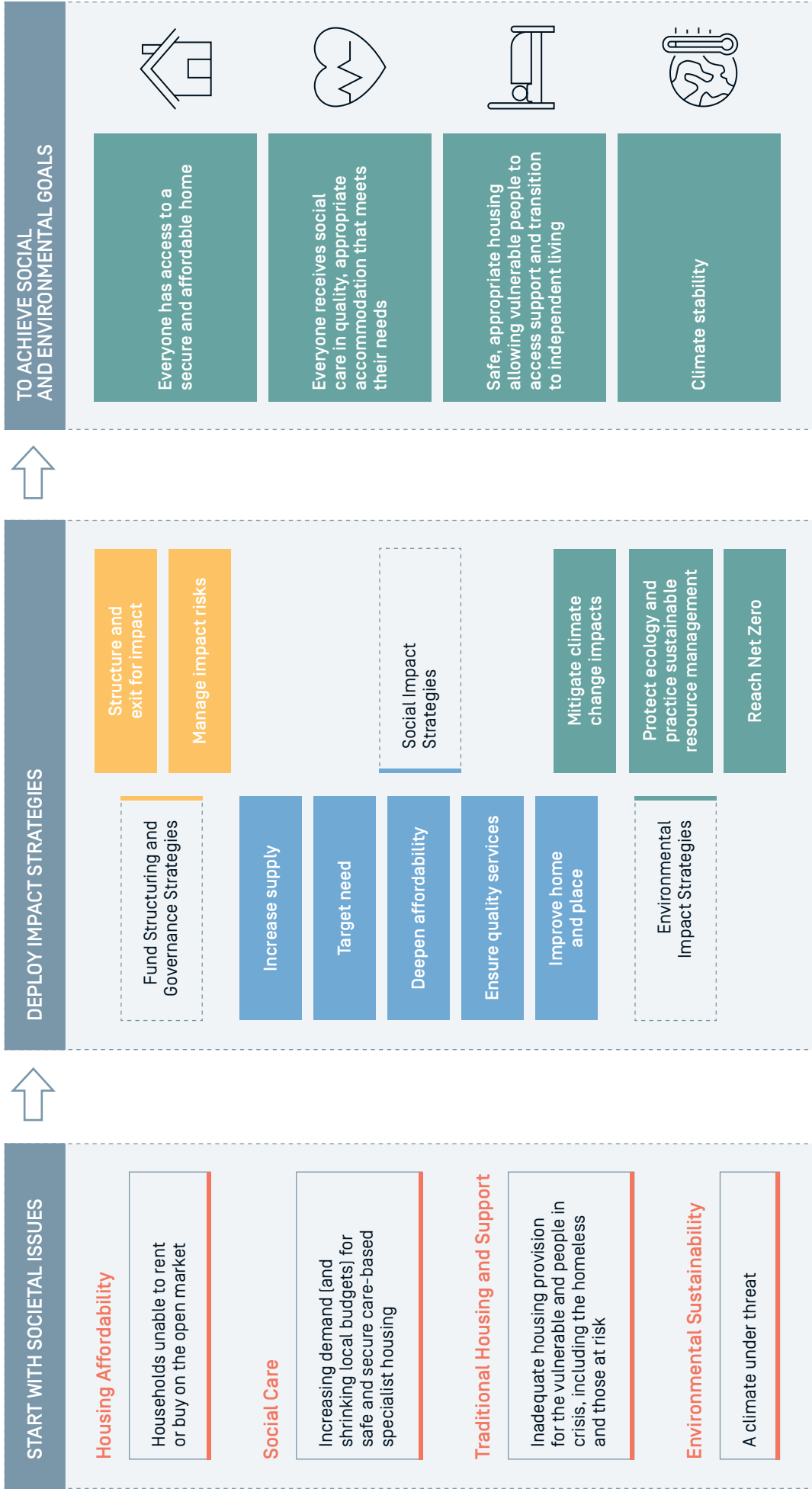
The purpose of this paper is to present a consistent approach for housing investment funds to assess and report on how they are making a positive social and environmental impact in relation to defined impact objectives and to set new norms of transparency and accountability.

Within the publication of this framework, developed in partnership with 10 housing investment funds, all managers making investments into social and affordable housing are now encouraged to become an ‘**Adopter**’ and test the reporting approach. In doing so they will commit to integrating the relevant components of the impact framework into measurement and reporting plans and fulfilling the reporting expectations as part of their annual impact reports. Over the next 12 months adopters will test the impact framework, improve and refine the approach and step closer to the goal of consistent and comparable impact reporting in social and affordable housing.

The purpose of this paper is to present a consistent approach for housing investment funds to assess and report on how they are making a positive social and environmental impact in relation to defined impact objectives and to set new norms of transparency and accountability.

ANNEX 1: THE FRAMEWORK

IMPACT FRAMEWORK: CORE ARCHITECTURE



<p>FUND STRUCTURE AND GOVERNANCE</p>	<p>STATEMENT OF PRACTICE ON FUND STRUCTURE IMPACT GOVERNANCE</p>
<p>Structure and exit for impact</p>	<p>CORE REPORTING EXPECTATION The manager shall describe the characteristics of the chosen investment model and policy. The statement of impact practice should explain:</p> <ol style="list-style-type: none"> 1. The expected impact additionality of the fund, referencing the impact strategies the investment model enables and facilitates 2. The approach to exit, including how, consistent with its fiduciary concerns, the fund considers the effect which the timing, structure and process of its exit will have on the sustainability of the impact 3. The potential <u>impact risks</u> inherent to the model and how these are mitigate and managed
<p>Manage impact risk</p>	<p>The Impact Management Projects 'Impact Risk' categories are provided as guidance, however fund managers are expected to independently identify the most significant impact risks attached to their individual investment strategies</p>

GENERAL NEEDS SOCIAL METRICS	OUTPUT METRICS	CORE REPORTING EXPECTATION	ENHANCED REPORTING
Increased supply	<p>1. Number of housing units funded</p> <p>2. Projected number of individuals housed</p>	<p>Disaggregated by: Acquired / SI06 / forward-funded / forward purchased Disaggregated by: Tenure type (NPPF definitions) Disaggregated by: LHA property-type (CAT A-E)</p> <p>Disaggregated by: Tenure type Projection based upon number of units financed and property-type</p>	<p>Ex-post validation: Number of housing units delivered Vs. funded</p> <p>Ex-post validation: Actual number of individuals housed disaggregated by adults and children</p>
Target need	<p>3. % of units financed in areas of constrained affordability</p>	<p>Median lower quartile house price to median lower quartile gross annual earnings by local authority. 'Constrained affordability' is a ratio of greater than 8.58 (2019 data), i.e. 50% least affordable areas</p>	
Deepen affordability	<p>4. Average % rental discount to market</p>	<p>= (n1 discount + n2 discount...)/ n Applies only to rents, including rental proportions of shared ownership. Decimals, i.e. 80% of market rent = 0.8; market rent = 1</p>	
Improve home and place	<p>5. % of sub-market tenures meeting a person-centred affordability test</p> <p>6. % of homes certified by a designated building quality mark</p>	<p>Scoring Green or Amber according against test methodology. Disaggregated by: % Social and affordable rents; % Intermediate rents; % Low cost home ownership</p> <p>Recognised standards include Home Quality Mark, Building for Life, BREEM Domestic Refurbishment, Secured by Design; Decent Homes Standard (acquired assets only)</p>	<p>% of households paying no less than one third of their net income on housing costs (Green score according to test methodology)</p>
Ensure quality services	<p>7. % of properties meeting NDSS</p> <p>8. % of renting tenants with security of tenure</p>	<p>Assessed against the 2015 technical housing standards – nationally described space standard</p> <p>% of rental homes with 3-year assured tenancy agreement (AST) or longer</p>	<p>% of providers reporting against sector quality benchmarks, e.g. Sustainability Reporting Standard</p>
ENHANCED REPORTING		AFFORDABLE HOUSING OUTCOME METRICS	OUTCOMES BENCHMARKING
Results of ex-post tenant-level surveys or focus groups conducted through housing providers or housing managers or other third-parties		<ol style="list-style-type: none"> 1. % of tenants satisfied with the security of their tenancy 2. % of tenants satisfied with the quality of their home 3. % of tenants satisfied with the service their landlord provides 4. % of tenants satisfied with the health and safety of their home 	<p>"How satisfied are you with this accommodation?" English Housing Survey www.gov.uk/government/collections/english-housing-survey Very satisfied / fairly satisfied / neither satisfied or dissatisfied / very dissatisfied</p>

SPECIALIST HOUSING SOCIAL METRICS		CORE REPORTING EXPECTATION		ENHANCED REPORTING	
Increase supply	1. Number of 'specialist housing' units funded	Disaggregated by: New-build, Acquired (passive transfer), Acquired (with refurbishment works) Disaggregated by: Specialist housing type (i.e. SSH, Extra Care, Residential Care) Disaggregated by: New to specialist housing sector (new-build or acquired from alternative, non-social use), Existing specialist housing	Ex-post validation: Void/occupancy rate	Beds for carers should be excluded from this calculation. Disaggregated by: Type of care (i.e. Multi-diagnosis, Learning difficulties, Mental health, Dependencies, ABI, Other, etc.) The life-cycle plan should be aiming to keep all homes in line with Decent Homes Standards, as a minimum Note not all SSH properties are regulated by CQC (if they do not provide 'personal care'). Also note SSH properties receive CQC rating at care provider office level while Residential Care and Extra Care receive rating at property level	Ex-post validation: Actual number of individuals housed, disaggregated by type of care need % of life-cycle plan capital expenditure commitments met in last 12-months
	2. Projected number of residents, at full occupancy				
	3. % of homes with a life-cycle plan, reviewed on a minimum 5-year basis?				
	4. % of homes with a CQC rating of 'Good' or higher (where ratings available)				
Improve home and place					
Increase quality services					
SPECIALIST HOUSING SOCIAL METRICS		CORE REPORTING EXPECTATION		ENHANCED REPORTING	
Deepen affordability	5. Describe your approach to rent setting to ensure they are affordable to all residents, offer value for money for the taxpayer, and ensure RPs can make an appropriate margin?			REPORTING STANDARD Involvement of local authority, and overall rationale behind setting rent levels should be included	
	6. Describe how you ensure that the specialist provision meets a local need?			Explain how you assess the need for specialist housing, and then how do you ensure your provision meets that need	
Target need					
ENHANCED REPORTING		SPECIALIST HOUSING OUTCOME METRICS			
Results of ex-post tenant-level surveys or focus groups conducted through housing providers or housing managers or other third-parties		1. % of residents who feel their home is having a positive influence on their physical health 2. % of residents who feel their home is having a positive influence on their mental health			

TRANSITIONAL SUPPORTED HOUSING (TSH)	OUTPUT METRICS	CORE REPORTING EXPECTATION	ENHANCED REPORTING
Increase supply	<p>1. Number of housing units financed</p> <p>2. Projected number of individuals housed</p>	<p>Disaggregated by: Acquired / S106 / forward-funded / forward purchased Disaggregated by: Tenure type (NPPF definitions) Disaggregated by: LHA, property-type (CAT A-E)</p> <p>Projection based upon number of units financed and property-type</p>	<p>Ex-post validation: Number of housing units delivered Vs. financed</p>
Target need	3. % of homes with a life-cycle plan, reviewed on a minimum 5-year basis?	The life-cycle plan should be aiming to keep all homes in line with Decent Homes Standards, as a minimum	<p>Ex-post validation: Actual number of individuals housed, disaggregated by household type (i.e. parents, children, couple, single, etc)</p> <p>% of life-cycle plan capital expenditure commitments met in last 12-months</p>
Deepen affordability	4. Breakdown of tenant rents relative to LHA	Disaggregated by % rents: at or below LHA; above LHA (exempt rent); above LHA (non-exempt rent)	
Improve home and place	5. % of homes receiving inspections in the last 12 months	Inspections should be aiming to keep all homes in line with Decent Home Standards, as a minimum	<p>% of life-cycle plan capital expenditure commitments met in last 12-months</p>
Ensure quality services	6. % of tenants with an agreed support plan in place	Support plans should be (1) informed by a formal needs and risk assessment; (2) agreed within four weeks of entering the service; and (3) updated every 6 months	
	7. % of tenants sustaining their tenancy	Each tenancy must have a minimum longevity target that provides the basis on which to measure this indicator, i.e. 6-months for homeless move-on accommodation	
	8. Number of hours of support per individual housed	Rolling average based on case-load estimates and projections	
ENHANCED REPORTING	<p>Results of ex-post tenant-level surveys or focus groups conducted through housing providers or housing managers or other third-parties</p>	<p>OUTCOME METRICS</p> <ol style="list-style-type: none"> 1. % of tenants that move-on positively (with specific positive / negative / other move-on definitions) 2. % of tenants satisfied with the quality of their home 3. % of tenants satisfied with the health and safety of their home 4. % of tenants satisfied with the service their landlord provides 	<p>WELLBEING MEASUREMENT</p> <p>% of tenants reporting improvements in wellbeing outcomes such as:</p> <ul style="list-style-type: none"> - Financial wellbeing (have savings accounts; employment) - Mental wellbeing (feel positive about the future; addiction recovery) - Relational wellbeing (improvement in support network / relationships) - Physical wellbeing indicators (fewer health issues / GP or hospital visits)

ENVIRONMENT METRICS	OUTPUT METRICS	CORE REPORTING EXPECTATION	ENHANCED REPORTING
Climate Stability	<p>1. Distribution of EPC ratings of financed housing units</p> <p>2. Scope 1 and Scope 2 greenhouse gas emissions per m² (asset performance level)</p> <p>3. Total capacity of renewable energy production</p> <p>4. % of built portfolio aligned with green building ratings standards</p>	<p>Distribution of EPC ratings across portfolio [%A, %B, %C ...] Disaggregated by: Acquired / forward-funded</p> <p>(Kg CO₂ per m²) Scope 1 emissions are direct emissions from owned or controlled sources. Scope 2 emissions are indirect emissions from the generation of purchased energy</p> <p>Total kWh and kWh per housing unit. The measure is the calculation of total potential production of all installed energy sources. Does not require actual energy values</p> <p>Description of rating standard Disaggregated by: % aligned / certified Disaggregated by: Acquired / forward funded</p>	<p>Number of energy efficiency measures implemented (GRESB 'Efficiency Measures')</p> <p>Scope 3 emissions are generated by the fund's value chain (e.g. residents)</p> <p>Disaggregated by generated and consumed by whom (GRESB 'Renewable Energy')</p> <p>% of buildings with a costed plan to get to net zero</p>
Reaching Net Zero	<p>QUALITATIVE STATEMENTS</p> <p>Describe how the following climate risks are mitigated:</p> <ul style="list-style-type: none"> - Increased flood risk - Increased risk of homes overheating <p>Describe your approach to reaching net zero greenhouse gas emissions across your activities and portfolio</p>	<p>REPORTING STANDARD</p> <p>Include information about both the likelihood, and the severity of these risks for your buildings, and include any mitigating actions that you are taking</p> <p>Statement should describe the level of ambition, time-scale, funding approach and activities (current and future). Reference can be made to the net zero definition being worked to and to the frameworks such as the Green Buildings Council</p>	
Ecology and Sustainable Resource Management	<p>ENHANCED PROCESS / POLICY REPORTING</p> <p>When forward funding, the fund has a strategy:</p> <p>To use or increase the use of responsibly sourced materials</p> <p>Yes / No / In development</p>	<p>To actively manage and reduce pollutants</p> <p>Yes / No / In development</p>	<p>To increase the amount of 'greenspace' and biodiversity on or near homes</p> <p>Yes / No / In development</p>



ANNEX 2: PERSON-CENTRED HOUSING AFFORDABILITY

The UK Affordable Housing Commission report [Making Housing Affordable Again: Rebalancing the Nation's Housing System](#) highlighted the scale and depth of the issue of housing affordability in the UK.

The report detailed that those facing 'housing stress', defined as paying more than one third of net income on housing costs "add up to 4.8 million households, representing one in five of all households in England and almost 40% of those in the lower half of the income distribution... The main effect cited was worsening mental health, with nearly a quarter (23%) of struggling renters (with housing costs above a third of their net income) saying their mental health had been affected. Nationally, this could affect some 2 million people."

The current accepted definition of affordable housing (20% discount to market) comes from the National Planning policy Framework but says nothing of the affordability of that property in relation to an individual's ability to pay. Consequently, as rents and prices rise, the true affordability of some 'affordable housing' requires a different analysis.

The impact framework presented adopts a person-centred affordability indicator applicable to general needs investments and offers up a corresponding methodology designed to help funds arrive at an assessment.

Summary methodology

Full methodology and tool on request.

The 'test' calculates whether housing costs are affordable, based on the proportion of a households' income they consume.

The specific calculation used depends on the tenure of the housing:

- **Social and Affordable Rent:** % of net income based on one full-time, minimum wage earning parent in a two parent, one child household
- **Intermediate rent:** % of median income (of the intended recipient group, i.e. key workers)
- **Low-cost home ownership (shared ownership), two tests:**
 1. Minimum income required to raise a deposit for a Lower Quartile property
 2. % of that income required to cover mortgage + rent costs

Calculations are then **adjusted for geography** based on local earnings and for **number of bedrooms**. A rating is then produced:

- 0-33% of income = Green (Deep affordability)
- 33-40% of income = Amber (Typically affordable)
- Above 40% of income = Red (unaffordable)

Caveats to the methodology

While it might be easy to seek to judge a property fund on this metric, it is important to note that acquisition and development costs are higher in high demand geographies, where land needs to be unlocked or where there is a higher quality of build. Therefore, while this metric aims to provide new insights and shine a light, it must be analysed in the context of other measures of impact, including the way the fund responds to need, increases supply, and improves home and place. Finally, it must also be recognised that funds can be 'rent takers' rather than 'rent setters' when working within the frameworks set by Local Authorities or other Housing Provider partners.

ANNEX 3: MOCK-UP 'ADOPTER' REPORTING TEMPLATE

EQUITY IMPACT REPORTING FRAMEWORK

"Social Housing Impact Fund"

This is based on the [EIP Framework](#).



This fund aligns to the Equity Impact Project **Housing Affordability** theme. Delivering homes to households unable to rent or buy on the open market.



This fund aligns to the Equity Impact Project **Social Care** theme. Seeking to meet the growing demand for specialist housing and support



This fund aligns to the Equity Impact Project **Environmental Sustainability** theme. Seeking to help mitigate and adapt to climate change, protect and restore ecology and use resources sustainably.

STATEMENT OF PRACTICE ON FUND STRUCTURE IMPACT GOVERNANCE

Statement on Fund Additionality

Referencing the impact strategies the investment model enables and facilitates.

Statement on Approach to Impact at Exit

Statement on Impact Risk Management

ENVIRONMENTAL QUALITATIVE STATEMENTS

Mitigate Climate Risks	
Reach Net Zero	

SPECIALIST HOUSING QUALITATIVE STATEMENTS

Deepen Affordability	
Target Need	

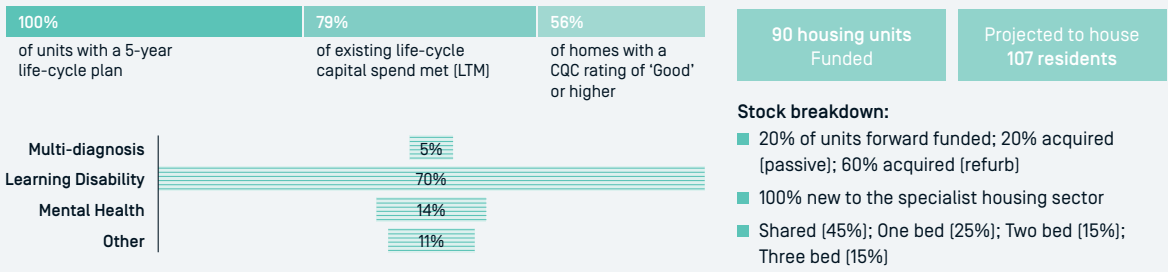
METRIC REPORTING

This is based on the [EIP Framework](#).

Societal Impact Area 1: HOUSING AFFORDABILITY Everyone has access to a secure and affordable home.



Societal Impact Area 2: SOCIAL CARE Those receiving social care do so in quality, appropriate accommodation.



Societal Impact Area 3: ENVIRONMENTAL SUSTAINABILITY Environmental Sustainability.



Indicator not reported	Explanation

Key areas of learnings or underperformance



This report was written by The Good Economy and Big Society Capital.

THE

GOOD

ECONOMY

4 Miles's Buildings
Bath BA1 2QS
T: 01225 331 382
thegoodeconomy.co.uk

BIG
SOCIETY
CAPITAL

New Fetter Place
8-10 New Fetter Lane
London EC4A 1AZ
T: 020 7186 2500
bigsocietycapital.com