

## VALUE FOR MONEY (VFM) STRATEGY 2016- 2020

### 1. Introduction: What is Value for Money?

#### A. A Value for Money Framework

As a housing association, Wandle provides core services to all tenure types. In order to continue to provide a quality service and develop new homes, the organisation must remain financially viable and demonstrate, through good governance, that we are obtaining the maximum benefit for goods and services using the proven economy, efficiency and effectiveness (3 “Es”) concept.

Value for money (VFM) is high when there is an optimum balance between the 3 “Es” and aims to achieve relatively low costs, high productivity and enhanced by the desired outcomes. Wandle will continue to ensure that it maximises surplus generated to invest in community support, asset management and our development programme to provide homes.

This strategy is part of the framework for doing the right thing with our investments and expenditure. It sets out corporate VFM objectives and defines how progress will be measured and monitored through Directorate and Team Action Plans. It is refreshed each year, taking into account, the HCA VFM standard and lessons learned through the delivery of internal annual targets.

While ownership of VFM is embedded as a shared purpose across the organisation the monitoring and reporting on progress sits within the Strategy and Performance Team. Progress is monitored and reported into the Executive monthly and is a standing agenda item for all Board meetings.

Through an ongoing campaign of continuous improvement staff are encouraged to share their ideas of where gains can be achieved. The all important voice of the resident is also encouraged through our Residents’ Scrutiny Panel and other engagement initiatives.

The annual VFM self-assessment and associated action plan set out the targets and monitoring framework for delivery of the objectives contained in this strategy and the Corporate Strategic Objectives

The annual VFM self-assessment:

- *Assists in delivering our four year Corporate Plan.*
- *Allows stakeholders, including the Housing and Communities Agency (our regulator) to understand the return on assets measured against the organisation’s objectives.*
- *Sets out the absolute and comparative costs of delivering specific services.*
- *Evidences the value for money gains that have and will be made and how these will be realised over time.*

#### References:

- The existing Wandle Value for Money Strategy and Money Self Assessment 2014/15
- HCA Value for Money Standard and Financial Viability and Governance Standard.
- Campbell Tickell: Value for Money, Good Practice Guidance, and other housing association VFM strategies identified as good practice.

## **B. Placing VFM within the Wider Context**

In 2015, the new government introduced a raft of policies affecting the Social Housing Sector, including the ongoing reform of welfare, new policies on rent (e.g a reduction in social housing rents by 1% each year for four years from April 2016), the extension of the right to buy, and an increasingly challenging grant regime for new housing. The policies were consolidated within the Housing and Planning, and the Welfare Reform and Work Bills

The regulation of the sector has evolved alongside these policies changes and associated risks, with an increasing focus on governance, viability, and VFM.

Similarly benchmarking has continued to evolve, enabling a changing, diversifying sector to drive efficiency and VFM, understand customers and manage risk.

The above changes are informing Wandle's strategic direction; risk management through the use of mechanisms such as financial stress-testing; and an increased focus on VFM.

## **C. Our Current Regulatory Rating**

In 2015, the Housing and Communities Agency (HCA) issued a new regulatory judgement on Wandle.

The HCA judgements are based on how housing associations are performing against the HCA Governance and Viability Standard. HCA ratings range from V1 (highest rating for financial viability) to V4 (lowest rating) and G1 (highest rating for governance) to G4 (lowest rating).

The organisation was downgraded from "V1:G1" to "V1:G2".

The HCA stated that Wandle had met the requirements:

- on viability set out in the Governance and Financial Viability Standard and had the capacity to mitigate its exposures effectively.
- on governance set out in the Governance and Financial Viability Standard, but needed to improve some aspects of its governance arrangements to support continued compliance.

The judgement then stated that:

*"The Value for Money standard sets a specific expectation that providers' self-assessments should enable stakeholders to understand the return on assets measured against the organisation's objectives; set out the absolute and comparative costs of delivering specific services; and evidence the value for money gains that have and will be made and how these have and will be realised over time.*

The HCA concluded that *"Wandle had not published a robust self-assessment setting out in a way that was transparent and accessible to stakeholders how it was achieving value for money in delivering its purpose and objectives. This meant the regulator had only limited assurance that Wandle was delivering a comprehensive and strategic approach to achieving value for money in meeting its organisational objectives"*.

### **References:**

- The existing Wandle Value for Money Strategy and Money Self Assessment 2014/15
- HCA Value for Money Standard and Financial Viability and Governance Standard.
- Campbell Tickell: Value for Money, Good Practice Guidance, and other housing association VFM strategies identified as good practice.

Going forward the organisation will strive to meet the Governance and Financial Viability Standard and regains the V1:G1 rating, with the understanding that VFM sits at the heart of this approach.

#### D. Embedding VFM in our Corporate Objectives

The Wandle Board provides the lead on, and oversight of VFM. It sets strategic direction for the organisation through corporate strategies and ensures these are aligned.

The Wandle vision is: *Homes to be proud of and services you can trust*

Our corporate strategy objectives for 2016-2020 are to:

1. *Drive up customer satisfaction*
2. *Do the right thing at the right time to maximise value for money outcomes*
3. *Flexibly invest to enable capacity and resources to grow*
4. *Raise Wandle's profile and reputation with our stakeholders*
5. *Create a place where people are proud to work*

#### E. VFM objectives for 2016-2020.

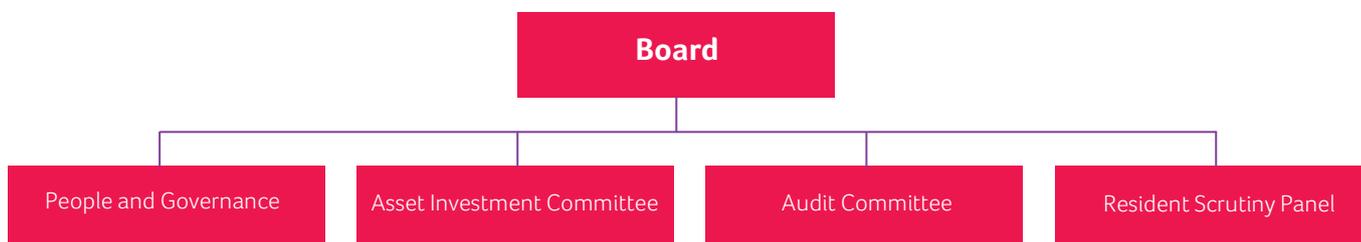
These corporate objectives are translated into operational objectives, goals, measures and targets with VFM running across all activities as a shared purpose. VFM is also embedded into core operational strategies with a focus on Treasury, Procurement, Asset Management and the New Homes Strategy.

## 2. Robust Decision Making.

### **The HCA VFM Standard**

*“Registered providers shall have a robust approach to making decisions on the use of resources to deliver the provider’s objectives, including an understanding of the trade-offs and opportunity costs of its decisions”.*

The following diagram sets out our main governance structure:



#### A. The Role of the Board

The Board must demonstrate ownership and oversight of all VFM activities, outcomes and outputs. These include:

##### References:

- The existing Wandle Value for Money Strategy and Money Self Assessment 2014/15
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- Campbell Tickell: Value for Money, Good Practice Guidance, and other housing association VFM strategies identified as good practice.

- Formal approval of the strategy, the VFM summary in the Financial Statements, action plans and the VFM self-assessment.
- Scrutiny of all relevant decisions and performance, including through informed challenge and debate.
- Proactively champion a culture of VFM outcomes throughout the organisation.
- Approval of reinvestment of VFM gains.

## **B. Support for Board: the Committees**

The Asset Investment Committee has a governance focus on the use of, and reinvestment of, existing assets, the disposal as well as growth of assets through development opportunities.

The primary function of this committee is to ensure a prudent and risk focused assessment of all the association's expenditure, and financial systems thereby protecting VFM.

The People and Governance Committee exercises oversight of appropriate pay and reward frameworks, ensuring that Wandle maximises VFM in terms of staffing costs.

The Audit Committee plays a key role in ensuring financial controls, compliance and the audit function are in place and operating effectively. These controls support and monitor VFM.

All of the committees meet quarterly and report to the Board.

## **C. Investment Management Group**

This consists of the Executive Team members and lead officers from across the organisation and rigorously scrutinises and evaluates all proposals that represent significant investment expenditure as well as major disinvestment decisions in relation to assets.

## **D. Residents Scrutiny**

The independently supported Resident Scrutiny Panel reports directly into Board, and provides additional scrutiny at operational level. All panel members have received training in VFM. This is providing them with the necessary skills for undertaking scrutiny activities. They have direct access to board members, including via the annual Involved Resident/Board Member events.

## **E. Ensuring Strong Governance**

Governance arrangements are assessed for effectiveness at least once a year.

The assessment will be focused on compliance with Governance and Financial Viability standard. It will also include consideration of:

1. VFM capabilities within the portfolio of Board Skills; and
2. Reporting arrangements.

The Board will be provided with the following to ensure that VFM is properly embedded into decision making, to inform understanding of the trade-offs and opportunity costs of decisions:

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- The existing Wandle Value for Money Strategy and Money Self Assessment 2014/15
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- Consideration of VFM in every report going to the Board and its committees.
- Robust risk assessment
- Performance and benchmarking information, to provide comparable information over time and against peers, to allow assessment of performance of all assets and resources.
- Opinions for reinvestment of VFM gains.

### 3. Managing Return on Assets

#### HCA VFM Standard

*“Registered providers will understand the return on their assets, and have a strategy for optimising the future returns on assets – including rigorous appraisal of all potential options for improving value for money including the potential benefits in alternative delivery models - measured against the organisation’s purpose and objectives”.*

#### A. Understanding and Monitoring Assets

Wandle will ensure that it has the understanding of its assets to manage them as effectively as possible. The organisation’s highest value asset is the property it owns and manages. As a result there will be a need to continually make decisions as to where, when and how it should invest in property maintenance.

This will include development and maintenance of:

- An Asset and Liabilities Register providing clear information on our assets.
- An active Asset Management Strategy that supports strategic decisions about the future of stock, which builds on a robust understanding on the return on asset position and plans to move forward.

Key to ensuring VFM informs the Asset Management Strategy is an effective procurement and contract management approach as set out in the Wandle Procurement Strategy. This recognises the importance of an integrated approach e.g. linking together New Homes, Asset Management and Repairs.

Wandle will also undertake regular monitoring to ensure VFM in relation to assets. This will include

- Monitoring financial gearing in order to ensure the maximisation of the value of assets.
- Using stock condition surveys and value based investment models to optimise return on assets and investment approach. The organisation will continue to develop the use of the John Rowan Partnership Value Based Investment Model. This will enable the organisation to categorise homes into excellent, good or poor categories requiring repair, replacement or disposal. The information generated from the model will inform the Disposal Strategy and Corporate Plan.

#### References:

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- Effective monitoring and management of voids.

When programming planned maintenance works, return on investment and value for money will form the basis of the delivery models for each programme.

Detailed analysis will be undertaken where:

- There is a risk of programme overlap; or
- economies of scale can be found; and
- under-performing properties can be removed or placed later in the programme while options appraisals are undertaken.

Where feasible and available, repairs data will be used to support programming decisions.

## **B. The Effective Use of Modelling**

The Value Based Investment Model allows Wandle to grade its properties both financially and socially and uses the data to drive investment and disinvestment decisions.

The model calculates the Net Present Value (NPV) of a property by assessing all the stock we identify that are not cost efficient in their current use, requiring reconfiguration or disposal enabling us to maximise the return on investment. By using a return on investment approach, we identify stock that is sustainable and provides long-term VFM, while reducing risk within our portfolio.

As part of the NPV and stock condition survey information we continue to invest in and improve on our social value model. We know that homes are valued when they are located in areas with strong transport links, good schools, great open spaces and community services. In order to understand how it feels to live in our homes we use the information gathered from the model as part of our investment and disinvestment decisions. By investing in the right homes we will reduce voids, arrears and improve the health and wellbeing of our residents which will lead to positive impact on other partner services which deal with health, anti-social behaviour and social isolation.

The overlay of the two models will allow us to identify our under-performing stock. This will be stock offering a poor financial return, where satisfaction with the estate is low. All properties will be subjected to a review before any investment decisions are taken.

Financial reviews utilise long and short term investment and option appraisal tools. This will allow Wandle to model individual or groups of properties on the basis of differing investment options or rental income models.

## **4. Performance Management**

### **HCA VFM Standard**

*“Registered providers will have performance management and scrutiny functions which are effective at driving and delivering improved value for money performance”.*

#### **References:**

- The existing Wandle Value for Money Strategy and Money Self Assessment 2014/15
- HCA Value for Money Standard and Financial Viability and Governance Standard.
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The Executive will ensure that:

- The Board, Committees and Residents' Scrutiny Panel are properly supported.
- VFM is systematically embedded in the association's culture and approach.

#### **A. Performance Frameworks**

A Wandle corporate objective focused on VFM, as agreed by the Board, will ensure VFM is written into business planning across the organisation, from the directorate plans to individual staff objectives.

Scrutiny will be supported by robust performance monitoring, and this will include updates on the VFM action plan to the Board.

Information and performance systems covering organisational costs, drivers/risks, outputs and outcomes will be used to monitor budgets, progress of VFM targets, and improvements over time. These systems will draw on financial data, comprehensive tenancy profiling information, evidence of customer satisfaction outcomes, and measurement of key areas of costs e.g. repairs, voids, arrears, fraud, staffing, etc.

Comparative analysis will also be undertaken, using HouseMark, the HCA Global Accounts and other suitable benchmarking approaches. This will inform the setting of objectives around operational costs and quality against peers.

The nationally recognised HACT community insight mapping and data system will be used to define and quantify social value generated by specific activities.

A structured approach will be used to identify and manage risk, including auditing and external advice.

#### **B. Embedding into Culture and Operations**

The organisation will continue to develop strong operating models, seeking to maximise income, keep costs down, and improve customer experience. Options appraisals will be used to ensure that decision making is properly informed.

There will be a policy of continuous improvement through the promotion of a learning organisation, business improvement activities and making best use of technologies.

The development of this culture will be supported by a communication programme for staff and customers. Staff will be encouraged to think about improvement as part of their daily work e.g. putting forward ideas to managers, using their discretion to make immediate improvements and respond to problems. At the heart of this, will be a respect for feedback from others, particularly customers. Wandle, will use a number of mechanisms for assessing and reporting on customer satisfaction, which take customer views and feedback directly into account.

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## 5. Managing Costs and Outcomes.

### HCA VFM Standard

*“Registered providers will understand the costs and outcomes of delivering specific services and which underlying factors influence these costs and how they do so”.*

Understanding costs and outcomes, is key to the long term viability of Wandle, and its capacity for improvement and growth.

The organisation faces a number of challenges which require a robust VFM approach. These include impacts from national welfare reforms and the planned reduction in social rent. Such impacts will be internally assessed through stress testing and a re-run of the organisations 30 year financial plan.

Wandle will evaluate options for change, and monitor performance, taking wider research findings (e.g. from Housemark and the HCA) on housing association costs and potential efficiencies into account.

#### A. Cost Base

As part of its financial strategy, the organisation focuses on several core financial indices. These are then tracked through performance monitoring.

1. Gearing
2. Operating margin
3. Management cost per home
4. Repair cost
5. Interest cover based on cash surplus.

Wandle recognises that key to controlling costs and ensuring organisational objectives, including financial viability are:

1. Strategic planning and performance management.
2. Compliance with regulatory requirements.
3. An effective procurement strategy which is embedded and unified across the organisation.
4. Maximising efficiencies.

#### B. Controlling Costs and Ensuring Outcomes

##### Strategic Planning

Strategic and financial planning will be properly linked, so that the organisation is focused on delivering its strategic objectives within the agreed budget envelope. There will be robust financial planning including optimising liquidity and ensuring financial security, through optimal cost of capital and adequate access to funding. We will be rationalising the loan book to reduce risk and ensure growth capacity, and consistent modelling of covenants. The focus will be on achieving a set net cash surplus in each year.

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- The existing Wandle Value for Money Strategy and Money Self Assessment 2014/15
- HCA Value for Money Standard and Financial Viability and Governance Standard.
- Campbell Tickell: Value for Money, Good Practice Guidance, and other housing association VFM strategies identified as good practice.

The annual budget, reforecasting, business planning, and performance management processes will be used to focus on areas where Wandle has invested to make service improvements and ensure that investment is generating returns. This will include comparing forecasts with the results of monthly reviews. The results of such reviews will be fed back to directorates and this will allow for early identification and response to any issues arising.

### **Compliance with Regulatory Requirements**

The relationship between VFM and the Governance and Viability Standard is recognised as being core to maintaining financial viability.

### **An Effective Procurement Strategy**

Decision making on service provision will draw on option appraisal and reviewing models of provision for cost effectiveness and efficiency. The measurement of VFM will include the validation of the internal supply of services through a rolling programme of competitive tendering; the extent to which Wandle is able to leverage value added through working in partnership with other organisations (including cost sharing); and the extent to which the resources of the organisation are utilised to maximise income.

### **Maximising Efficiencies**

This will include return on our assets and improvements in service delivery (see previous sections). Drivers of efficiency include:

- Keeping down overheads and staff costs.
- Business rationalisation.
- Excellent business processes, and best use of technologies.
- Seeking to maximise income collection and generation e.g. through control of voids, arrears, etc.
- Ensuring that at all times we procure goods and services that represent good value coupled with excellent quality.

Wandle will continue to ensure that it maximises surplus generated to invest in community support, asset management and our development programme to provide homes.

## **6. Conclusion**

Wandle will seek to meet the HCA Governance and Financial Viability Standard and return to a regulatory rating of V1 and G1. It is recognised that a strong focus on VFM that results in tangible improvements will be key to this. Our approach, therefore is to ensure that VFM is value driven and is recognised as a shared purpose across the organisation, informing all decisions and operations.

VFM will support our core vision, which remains to provide “Homes to be proud of and services you can trust”, and our related corporate plan and objectives.

To achieve VFM we will continually review and seek to improve how we deliver:

- Good Governance
- Performance Management
- Business Improvement

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- HCA Value for Money Standard and Financial Viability and Governance Standard.
- Campbell Tickell: Value for Money, Good Practice Guidance, and other housing association VFM strategies identified as good practice.

- Asset Management
- Risk Management
- Financial Management
- Procurement

To ensure that VFM remains at the core of delivery, Wandle will embed it into decision making both at strategic and operational level. This will include:

- Board ownership of VFM.
- VFM will be a key component of the Strategic Plan and relevant directorate and team plans.
- A VFM action plan embedding delivery of the VFM statement into operations.

This work will be driven by a commitment to VFM across the organisation at all levels to make improvements to benefit the customer, organisation and the local communities in which Wandle operates.

**References:**

- The existing Wandle Value for Money Strategy and Money Self Assessment 2014/15
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