Wandle Value for Money Strategy

2022 - 2024

wandle

Wandle Corporate Strategy 2022 - 2025

STRATEGIC THEME 1

Outcomes for Customers that make us proud

STRATEGIC THEME 2

Providing homes we would be happy to live in

STRATEGIC THEME 3

Building new homes and successful communities

ENABLING OBJECTIVE 1

Improving our financial resilience

ENABLING OBJECTIVE 2

A well governed organisation

ENABLING OBJECTIVE 3

An employer of choice

Table of Contents

1. Executive Summary

1. Value for Money (VFM) is a key focus of our Corporate Plan. Our VFM Strategy is a core part of the 'Maximising Financial Resilience' Enabling Objective and links to our People Strategy within our 'Being an Employer of Choice' Enabling Objective.

2. Our VFM Strategy sets out five VFM objectives;
   - Generate the maximum social and financial return from our assets and other resources for the benefit of our customers
   - Manage our services through optimised processes that deliver consistently good services to our customers
   - Carry out option appraisals for our services and assets in order to optimise their economy, efficiency and effectiveness
   - Work with high performing partners, contractors and suppliers, selected and retained to enhance the services we provide to our customers
   - Reinvest the financial returns we make from achieving our VFM objectives to optimise the economy, efficiency and effectiveness of our services and assets over the longer term (30 years)

3. We recognise that the enabling objective to 'Be an Employer of Choice' is key to delivering VFM, as it enables us to recruit and retain staff who will deliver consistently good value services to our customers. So we have established a clear link between this objective and the VFM Strategy

4. We have identified a number of Financial and Social Value metrics to help us measure the delivery of VFM across the organisation. These include all the regulatory VFM metrics and additional metrics designed to enable us to measure VFM that is specific to Wandle, particularly across those aspects of the business where we have recently had performance challenges, such as complaints and customer satisfaction. Appendix 1 shows these metrics.

5. We will use the VFM metric Earnings before Interest Tax, depreciation and amortisation (EBITDA(MRI)) to develop and inform our strategic investment plans

6. We are proposing to benchmark our performance with the L12 group of housing providers who operate in London, most of whom are a similar size to Wandle.

7. We are using both strategic and target-driven approaches to help Wandle colleagues understand the importance of VFM.

8. We have maintained a schedule of VFM savings that we have delivered over the 2021/22 Financial Year, and the savings forecast for 2022/23 (Appendix 2).

2. Introduction to the Value for Money Strategy

1. Since Wandle was formed in 1967, there has never been a more important time for the organisation to provide homes and services that provide value for money. Against the backdrop of rapidly increasing cost inflation, forecast to peak at over 10% in the autumn of 2022, Wandle's customers are facing significant financial challenges. The main driver behind the inflationary increases is a sharp increase in fuel costs, which will disproportionately impact lower income households. So, the provision of value for money services by Wandle really matters to our customers

2. Wandle recognises that it must meet these challenges by freeing resources to improve the quality of its properties and services. Taking a strategic approach to value for money is vital. Careful and prudent forecasting releases resources to enable Wandle to make investments which will improve the quality of its properties, increase customer satisfaction, reduce complaints and reduce future demand for responsive repairs.

3. However, customers are also facing immediate as well as long term financial strains. That is why Wandle has significantly increased investment into its Helping Hand fund to £250,000 in 2022/23. This fund provides support to tenants to sustain their tenancies and make essential purchases, to help them maintain and improve their quality of life.

4. Wandle's five Value for Money objectives are designed to help us get the best returns from our properties, provide consistent good quality services, make the best investments in services and assets and work with the right partners.

5. We know that we have a long way to go. But we believe the Value for Money Strategy shown below will help us to achieve our vision of providing *'Homes to be proud of and services you can trust'*.

3. Wandle's Vision, Purpose and Value for Money

3.1. Wandle's Vision

Wandle's Vision of providing *'Homes to be proud of and services you can trust'* is articulated in the Strategic Plan approved by the Board on 30 March 2022. This vision will be achieved through our three strategic themes and three enabling objectives:

STRATEGIC THEMES

1. Outcomes for customers that make us proud
2. Providing homes that we would be happy to live in
3. Building new homes and successful communities

ENABLING OBJECTIVES

1. An employer of choice
2. Maintaining our financial resilience
3. A well governed organisation

3.2 Value for Money Objectives

Our Value for Money (VFM) Strategy is set within the enabling objective 'Maintaining our Financial Resilience'. However, VFM is a strategic imperative which is woven through all of our strategic themes and enabling objectives, because it is vital to the delivery of our vision. Our VFM strategy is delivered through five strategic objectives, and the People strategy. Our five VFM strategic objectives are as follows;

- Generate the maximum social and financial return from our assets and other resources for the benefit of our customers
- Manage our services through optimised processes that deliver consistently good services to our customers
- Carry out option appraisals for our services and assets in order to optimise their economy, efficiency and effectiveness

1. Work with high performing partners, contractors and suppliers, selected and retained to enhance the services we provide to our customers

- Reinvest the financial returns we make from achieving our VFM objectives to optimise the economy, efficiency and effectiveness of our services and assets over the longer term (30 years)

We will use benchmarking to set our VFM objectives and targets and measure the progress made in achieving these targets.

Many of the measures we use for VFM reporting are the same metrics we use in reporting our performance in delivering our Corporate Strategy (the metrics which are used in both are shown in Appendix 1). This evidences the close alignment of our VFM Strategy with the Corporate Strategy.

We also recognise that being an employer of choice is a key VFM objective, as it enables us to recruit and retain staff who deliver consistently good value services to our customers. However, rather than including this as a separate objective in our VFM strategy, we will include this requirement in the next update of our People Strategy.

Our approach to each of these objectives is set out below;

3.3 Generating the maximum social value and financial return from our assets and other resources

As a housing association and a charity, our first priority is to provide housing for those people in housing need in south London who cannot afford to buy their homes on the open market. We recognise that providing housing for people in need gives a social value return which will constrain the financial returns we can achieve from our properties.

However, subject to these constraints, we recognise the importance of generating the maximum financial return from our properties. This will enable us to reinvest the surpluses we make into improving our services and properties for the benefit of our customers.

STRATEGIC PLANS

Build More Homes pilot

In July 2021, the Board approved a pilot programme designed to enable the organisation to build and acquire more homes – the Build More Homes pilot. The programme involves engaging with tenants of high value homes who may prefer to be rehoused in smaller properties which are more suitable for their needs. Where this is the case, their original properties will then be sold, and the proceeds used to develop or acquire more properties for rent or shared ownership. The average value of the homes that will be sold through the programme is £600k to £700k, and we aim to provide 2.3 new homes for every one we sell.

The pilot programme will involve replacing 35 existing properties with a forecast 81 new properties. Once the pilot programme is complete in March 2023, a forecast additional net annual rental income of over £200k is forecast. The pilot will then be evaluated by the Executive Team and Board to determine whether to extend the pilot into a further programme of property disposals.

A key VFM metric being used to assess which properties to target for sale is Return on Capital employed based on opportunity costs, described in section 3.3 below.

Business stream and property type financial reporting

A key part of Wandle's VFM Strategy is the appraisal of the financial performance of our properties based on their operating margins.

Wandle operates a number of different business streams;

RENTAL

- General needs,
- Shared ownership,
- Supported Housing
- Intermediate and Market Rent
- Commercial rent and garages

SALES

- First tranche shared ownership sales
- Empty property sales
- Build more Homes sales

It is good business practice and a key requirement of the Regulator's VFM code to embed VFM at the level of individual business streams… *"Resources and assets should be considered in the widest sense [which] should include investments into particular services or business streams"*.

Wandle first started to measure financial performance across its different business streams in the Q2 2021/22 Management accounts. This opened up several questions about performance. One of the key issues highlighted was the relatively low contribution of rental business streams to Wandle's overall surplus. This made it important to understand our performance by property type within the different business streams, as the low level of surplus generated could mean that certain types of properties are having a negative impact on Wandle's financial performance.

Wandle's properties were therefore allocated into a number of categories;

- Houses and bungalows
- Purpose-built flats developed before 2012
- Purpose-built flats developed from 2012 onwards
- Converted properties – older houses converted into a number of flats

The Executive Team and Board recognise that understanding the returns generated from these different property types is key to driving improved Value for Money. The Executive and Senior Management teams identified that older houses which had been converted into a number of flats were experiencing higher levels of responsive repair costs and disrepair claims.

So, for the first time, the 2022/23 Budget projected the performance of different types of General needs properties based on 2021/22 out-turns. This highlighted the relatively poor performance of flat conversions compared to purpose built flat developments, houses and bungalows;

A key VFM priority in 2022/23 will be to report and analyse financial performance across the different business streams and types of property. Many of the converted properties have a high open market value. Where properties are high value on the open market, fuel inefficient, and/or high cost a full option appraisal will be carried out to enable informed decisions about property investment and disposal.

2022/23 Budget forecasts	Operating margin before depreciation, variable costs (including staff) and interest
Houses and Bungalows	74%
Purpose-built flats pre 2010	66%
Purpose-built flats post 2010	90%
Converted properties	60%
Overall average – General needs	**73%**

3.4 Measures used to assess the financial performance of our properties

We will use three different sets of measurements of financial and social return for our properties;

I. **Return on Capital Employed**

a. Return on Capital employed (ROCE) for our entire property portfolio. This is the overall operating surplus (or deficit), including gain on the disposal of fixed assets, divided by total assets less current liabilities. ROCE is one of the key metrics that the Regulator of Social Housing uses to measure the VFM performance of social landlords.

b. Return on Capital employed based on opportunity cost (ROCE – opportunity cost) This measures the operating surplus divided by the opportunity cost of providing the property as social housing. A hypothetical example will highlight the importance of this measure;

Imagine that a wealthy benefactor sold a well-maintained mansion in central London to Wandle for £5,000, even though it was worth £100 million. It is interesting to compare two alternative approaches that we could adopt;

STRATEGY 1

Wandle could simply rent the property out to a social tenant. Based on a social rent of £8,000 p.a. the net operating surplus might be £5,000. As the property only cost £5,000 the normal Return on Capital employed measurement would show an impressive 100% return. Other VFM measures would also be very strong – as the property was very well maintained, its initial headline social housing cost would be low and its operating margin, gearing and EBITDA (MRI) interest cover ratios would all be very good. As well as these strong VFM metrics, we would be fulfilling our social purpose, so standard VFM assessments would suggest that renting the property to a social housing tenant, was a great strategic decision.

STRATEGY 2

However, let us look at an alternative strategy, Strategy 2, which would involve selling the property on the open market. This would and generate a £99.99 million surplus, which might be sufficient to develop or acquire 300 properties. These 300 properties could each generate a £5,000 return, representing a £1.5 million annual increase in net revenue for Wandle, enabling the organisation to house 299 additional tenants compared to Strategy 1. The benefits of Strategy 2 compared to Strategy 1 are clear, but none of the traditional VFM indicators highlighted a problem with pursuing Strategy 1. This is where the calculation of *Return on Capital employed based on opportunity cost* is key to understanding the benefits of the alternative strategies. The opportunity cost of renting the mansion to a social housing tenant means the organisation would forgo a £99.99m surplus on the sale of the property.

The ROCE (opportunity cost) would produce the following results for the two strategies;

Return on Capital employed based on opportunity cost for Strategy 1
= £5,000/99.99m = 0.00005%.

By contrast, the Return on Capital employed based on opportunity cost for Strategy 2
= £1.5m/ £99.99m = £1.5%

This metric makes our strategic decision clear – it is much better to adopt Strategy 2. The probability of being given a £100 million property for £5,000 is obviously extremely low. However, Wandle does have around 100 properties valued over £1 million on the open market, and so the organisation has an opportunity cost for those properties of £100 million+.

From our hypothetical example (above) it is clear that strategic investment decisions about our properties should be influenced by Return on Capital employed based on opportunity costs, alongside other regulatory VFM metrics.

II. The second sets of metrics which we will use to assess the financial return on our properties is Operating margin. The Regulator has two ways of measuring Operating Margin;

a. **Operating Margin (social housing lettings only) %**

Operating surplus / (deficit) from social housing lettings, divided by Turnover from social housing lettings

b. **Overall Operating Margin %**

Overall operating surplus / (deficit) – gain/(loss) on disposal of housing properties and other fixed assets, divided by overall Turnover

Wandle will adopt these as VFM measures, but add a third measure;

c. **Overall Operating Margin % (before depreciation)**

This is an important measure of current performance. It excludes depreciation charged as this is largely based on original cost of properties rather than current property values, and so represents a 'sunk cost'. For example, in assessing the performance of different business streams, consideration should be given to operating margin, as this is a measure of financial performance generated by our existing use of properties, and opportunity cost, which is a measure of financial performance based on alternative use of properties (e.g. sale of properties on the open market). The original cost of the properties and the depreciation charged is irrelevant to that decision, except that it will generate an accounting surplus or deficit. Economic theory and practice require sunk costs to be ignored in property financial appraisals.

III. We will also measure Headline social housing cost per unit and % Gearing, which are both Regulatory VFM indicators

IV. The final set of metrics measure social return on investment. These look at the impact of Wandle's services on existing and prospective customers;

LAG INDICATORS

- Overall customer satisfaction
- No. of complaints per 1,000 properties p.a.
- % void loss
- Income collected as a % of income due
- New supply delivered %

LEAD INDICATORS

- Property investment: Responsive repairs ratio
- % satisfaction with repairs delivered (transactional measure)
- Reinvestment %
- % of transactions through the MyWandle digital channels
- Social value outcomes achieved through the Helping Hands Fund

We have separately identified lead and lag indicators, as the lead indicators will help us identify emerging issues – showing how well our services currently meet customer requirements and how well they will be expected to perform in the future.

Lag indicators are backward looking, so are less valuable for identifying emerging trends.

We will report against these indicators and targets annually in our financial statement.

3.5 Manage our services through optimised processes that deliver consistently good services to our customers

Effective management of business processes has been an area where Wandle has in the past found it difficult to deliver consistent results. With the implementation of Microsoft Dynamics in 2020/21, Wandle has a flexible and responsive transaction management and reporting system which can be adapted to track the effectiveness of Wandle's core business processes.

Recognising this, the Executive Team and Board have started to roll out a series of process reviews which will utilise the system's flexibility and reporting capabilities.

The first process review covering responsive repairs, was completed in January 2021. The review made a series of recommendations for improving existing responsive repairs processes;

Action	Target date
Analyse demand and patch only working to ensure process provides operational flexibility	April 2022
Simplify and refine multiple contracts to one way of working to add clarity to the process	May 2022
Initiate additional controls to build system driven activity to ensure follow on appointments are made on site	May 2022
Fully integrate Dynamics to the Mears Contract Management (MCM) system to enable better sharing of information with the contact centre, enabling more appointments to be made at first point of contact	June 2022
Implement locator plus to dynamics and MyWandle	June 2022
Create Urgent and Major responsive repair categories in Dynamics and MCM as job types	June 2022
Improve live transactional satisfaction/feedback on job completions	June 2022

Further Process reviews are timetabled as follows;

Team	Targeted completion date
Leasehold	31/5/22
Housing	31/7/22
Contact Centre	31/10/22
Major repairs	31/1/23
Asset Management	30/4/23
Finance	31/7/23
Human Resources	31/10/23

3.6 Carry out option appraisals for our services and assets in order to optimise their economy, efficiency and effectiveness

ASSET OPTIMISATION

3.6.1 The Executive Team and Board consider the performance of our assets against certain performance criteria as part of our Asset Management Strategy, using both financial and strategic criteria;

- Financial Appraisal based on Net Present Value
  - Rent
  - Voids and bad debts
  - Service income
  - Repairs costs
  - Management costs
  - Planned maintenance
  - Service costs
  - Cost of achieving SAP 69/Net zero carbon
- Strategic measures
  - Location – strategic relationship with the Local Authority, concentration of stock and ranking in the Borough
  - Ease of management
  - Physical attributes of the property
  - Local neighbourhood
  - Where assets do not meet the requirements for retention as set out by the Asset management Strategy, they will be identified for disposal. A property would normally need to be empty before it is reviewed for disposal, but where a property fails the minimum standards, then rehousing will be discussed with the tenant, and, if agreed, the property will be sold or redeveloped.

In addition to this assessment, Wandle's property portfolio will be assessed to identify properties which are candidates for the Build More Homes pilot described in section 3.3

APPRAISAL OF SERVICES

3.6.2 Wandle will regularly review the way it delivers services to determine the optimum delivery mechanism for each service. Appendix 3 provides a template showing the different issues that may be considered in a service option appraisal. This template will be used as a guide for evaluating new types of service delivery, rather than used as a definitive list of all issues that need to be addressed. For example, if Board and Senior Managers already have experience of the service options evaluated, then a few key criteria may be assessed, rather than the comprehensive list shown in Appendix 3.

A service option appraisal will be carried out for strategic reviews such as the decision to tender our responsive repairs and gas services, taken in 2020/21 and due to complete in 2022/23, and also decisions about operational delivery such as the DLO incentive scheme introduced in 2021/22.

3.6.3 Operational decisions also receive careful evaluation from a VFM perspective. One effective way of realising the economic and efficiency benefits of operational decisions is to trial new initiatives through pilots.

For example, the Executive Team identified that the productivity of Wandle's DLO was relatively low compared to benchmarks set by high performing DLO's in other providers. The Interim Director of Maintenance established a pilot reward scheme, starting in January 2022, where operatives were given bonuses based on improved DLO productivity and high customer satisfaction in post-completion responsive repair surveys. The pilot proved to be a success, and we are projecting net financial savings from reduced sub-contractor usage of approximately £386k in 2022/23. The scheme parameters will be reviewed in 2022/23 to ensure that the optimum financial and customer service benefit is derived. There was a low risk associated with the economic and efficiency benefits identified, because the pilot scheme was self-financing – if the operatives met their targets the financial gains from the improved productivity would far outweigh the costs of the bonus scheme.

3.6.4 Appraisals of service delivery mechanisms can generate significant VFM improvements even if they are not based on big strategic reviews. For example, like many other providers, Wandle has seen a significant increase in disrepair claims over the last 12 months. This has resulted in high levels of legal costs to defend these claims.

The Executive Team recognised that the legal costs associated with disrepair claims could be reduced by directly employing a solicitor to deal with these claims on behalf of Wandle. The forecast saving from insourcing this service is £170k 2022/23

3.7 Work with high performing partners, contractors, and suppliers, selected and retained to enhance the services we provide to our customers

3.7.1 In September 2020, Wandle appointed MCP2 as procurement advisors. Under the contract MCP2 provides a procurement team over a three year period, with the aim of delivering compliance and VFM in procurement and contract management for Wandle. The contract specifies that the costs of MCP2's services will be more than covered by the savings identified by MCP2. So far, the following benefits have been realised through the contract;

- MCP2 have reviewed Wandle's procurement processes and have implemented improvements to ensure procurement legislation and best practice is being followed in line with the Public Contract Regulations, and Wandle's internal sourcing procedures.
- 50 staff across the organisation who are responsible for the management or procurement of contracts have been trained on procurement and/or contract management. Training delivered includes;
    - Specification Writing
    - Evaluation Training
    - KPI reporting
    - Contract Management Introduction
    - Contract Management Advanced
- A fully implemented Forward Procurement Plan which contains information on over 160 known procurements provisions. Procurements are logged on the basis of a scheduling system which moves contracts through the following stages:
    - Pre-pipeline
    - Approval to procure
    - Approval to let / contract signed
    - Complete – in contract
    - Complete – expired
    - An 'exceptions' log

A 'Core Contracts' Register which contains details of contract documentation for c. 40 'Core' Contracts, using an approach based on a risk and impact matrices to identify and minimise supply risks.

MCP2 are using their procurement expertise to drive Value for Money savings on the contracts they help to procure. So far £196k of net cashable savings have been generated (after allowing for the costs of the procurement team);

	Savings generated	MCP2 contract costs	Net savings
2020/21			
Q3	£90,000	£67,500	£22,500
Q4	£36,000	£67,500	(£31,500)
Total	**£126,000**	**£135,000**	**(£9,000)**
2021/22			
Q1	£127,000	£67,500	£59,000
Q2	£165,083	£67,500	£97,583
Q3	£143,747	£67,500	£76,247
Q4	£39,200	£67,500	(£28,300)
Total	**£475,030**	**£270,000**	**£204,530**
Total to Date	**£601,030**	**£405,000**	**£196,030**

3.7.2 MCP2's contract will end on 30 September 2023. Wandle will explore options to further develop the organisation's procurement and contract management capability in 2022/23.

3.8 Reinvest the financial returns we make from achieving our VFM objectives to optimise the economy, efficiency and effectiveness of our services and assets over the longer term (30 years).

ADDRESSING FINANCIAL CHALLENGES IN 2021/22

3.8.1 In 2021/22, when Wandle saw a £2.9 million increase in demand for responsive repairs compared to budget, we identified the increased demand and financial consequences of this in the first quarter of the financial year. At that time, it was uncertain whether the additional demand was related to the release of lockdown restrictions earlier in the year. However, the trend continued into the second quarter, and although the increased responsive repairs costs were not going to cause a breach of the Golden Rules or covenants, there would be an impact on Wandle's EBITDA (MRI) ratio, which was forecast to reduce to under 90%.

3.8.2 The Executive Team and Board recognised that the issue needed to be dealt with from a strategic perspective. It was going to be difficult to make changes to our strategic direction that would improve the ratio in 2021/22, but we could review our options for 2022/23 to 2024/25. The acid test of this improvement would be an improvement in our EBITDA (MRI) ratio. We therefore set up a Board working group to explore options and report back to the Board.

3.8.3 The Group met twice, explored a range of options and modelled them through LTFP scenarios, in order to generate proposals which could help to address the EBITDA (MRI) shortfall. The group proposed that we should bring forward a programme of shared ownership purchases from later in the LTFP to 2022/23, which should significantly increase our EBITDA (MRI) ratio as a result of an increase in first tranche sales surpluses. We would also complete the execution of interest rate swaps with Barclays and Lloyds to rebalance our interest cover and gearing ratios, continue with the Building More Homes pilot, and continue to focus on facility cost reduction through our office strategy.

3.8.4 In summary these proposals were a mixture of strategic investment (In Building More Homes and Shared ownership purchases), treasury management and cost reduction, to create future capacity within our financial plan. The proposals enabled us to forecast an increase in our EBITDA (MRI) ratio to c.90% in 2022/23 and then c.130% for the following three years, creating capacity to make further investments in our homes and services. These proposals were approved by the Board in February 2022 and included in the 2022/23 Budget and LTFP.

PLANNING FOR STRATEGIC INVESTMENT

3.8.5 It is vital that Wandle's VFM Strategy provides the capacity for Wandle to make future investments into its homes and services. For example, increased investment in our properties to improve their overall condition would have the following benefits;

- Increase in customer satisfaction
- Reduction in future responsive repairs
- Potential reduction in disrepair claims

3.8.6 The VFM metric Earnings before Interest, Depreciation and Amortisation (Major Repairs Included) – EBITDA (MRI) gives a good indication of our capacity to make investments each year from our core operating surplus, discounting surpluses from any property sales. We recognise that effective investment is a powerful tool to address some of the challenges facing Wandle, including relatively poor customer satisfaction and a high level of responsive repair demand.

3.8.7 So, as part of our annual Budgeting process, the Executive Team will review the EBITDA (MRI) forecast for the following five years to assess the capacity of the organisation to make further investments in our properties, technology or people. The minimum target for the EBITDA (MRI) surplus will be 110%, and we will allow a 10% contingency for future year's planning, increasing by 5% each year as the planning time horizon expands.

So, at 31 March 2023, the minimum targets for the following years will be;

Year	Minimum EBITDA (MRI) target	Contingency	Adjusted EBITDA (MRI) target
2023/24	110%	10%	120%
2024/25	110%	15%	125%
2025/26	110%	20%	130%
2026/27	110%	25%	135%
2027/28	110%	30%	140%

3.8.9 The Executive team will review these targets and recommend any changes to the Board each year as part of the Budget process. These targets will, of course be set at a level to ensure Wandle's compliance with its Golden Rules.

3.8.10 Where the LTFP forecasts that for any year that the EBITDA (MRI) ratio will be under 110% target plus contingency, no additional investment will be planned for that year. Investment plans will be adjusted in the event of unexpected cost or income changes within any given financial year.

3.8.11 The Budget and LTFP will include investment plans for the available funds above the Adjusted EBITDA (MRI) target. So, if the Adjusted target was 120% and the forecast EBITDA (MRI) ratio was 130%, the available investment capacity would be 10% of the EBITDA (MRI) or c. £800k.

3.9 VFM Strategy and the People Strategy

We recognise that the enabling objective to 'Be an Employer of Choice' is key to delivering VFM, as it enables us to recruit and retain staff who will deliver consistently good value services to our customers. So, there is a clear link between this objective and the VFM Strategy. The following paragraphs highlight the importance of this objective for delivering VFM for Wandle;

3.9.1 Wandle has been piloting a flexible working approach since the office was closed for two years due to the onset of Covid in early 2020. A new hybrid working policy is currently being consulted on and once implemented this will enable a wider review of recruitment. This will include an analysis of the potential for recruiting in different geographic locations in order to maximise VFM. The policy will be based on the new office arrangements that will be in place by October 2022.

3.9.2 Reward and Remuneration will be another key area of the People Strategy, to ensure that Wandle is able to recruit suitably skilled and qualified staff who fully support our corporate values. Reward and recognition is particularly important in the context of the current challenging job market and the financial pressures Wandle and the wider Housing sector face.

3.9.3 A key improvement area in 2022/23 will be the learning and development programme. The programme is designed to ensure all Wandle staff are supported to deliver their very best performance, enabling the organisation to achieve its Corporate Strategy. The customer service training provided by Mary Gober International planned for 2022/23 will be important in this regard.

3.10 The Value for Money, New Homes and Asset Management Strategy

VALUE FOR MONEY AND THE NEW HOMES STRATEGY

3.10.1 Our new homes growth strategy seeks to deliver well designed, sustainable, safe and affordable homes in South London. The strategy is supported by 3 growth principles; strategic fit, financial viability and risk/deliverability.

3.10.2 The financial viability principles will ensure that we deliver more homes while achieving value for money and minimise use of working capital. Development opportunities are 'filtered' and/or prioritised against these principles to ensure investment is targeted to most relevant projects.

3.10.3 Development appraisal hurdles, which are reviewed regularly, are considered for individual projects at relevant gateways. The appraisal outcomes are measured against 'hard' and soft hurdles, including at project outturn and reported to relevant committees or Board.

Growth Principle	Key Priorities
Strategic Fit – *Ability to deliver genuinely affordable, safe, sustainable and well-designed homes within core operating areas.*	• Allows more genuinely affordable and quality homes. • Sustainable homes that are future proofed to ensure net zero carbon without need for further retrofit work • Supports the delivery of localised services within Wandle's core operating areas. • Enables Wandle to reinforce working relationships with key partners.
Financial Viability – *Ability to deliver more homes while achieving VFM and minimising use of working capital.*	• Financially viable and achieves Value for Money. • Can be delivered within Wandle's existing LTFP. • Maximises the use of available external funding and RCGF, as appropriate.
Risk and Deliverability – *Ability to deliver more homes, utilising Wandle's expertise and resources, and minimising risk and exposure.*	• Feasible delivery route that aligns with Wandle's core competencies and resources. • Project risk can be managed to an acceptable level.

VALUE FOR MONEY AND THE ASSET MANAGEMENT STRATEGY

3.10.4 The new Asset Management Strategy will be designed to ensure that Wandle's investments into its homes provide Value for Money.

3.10.5 For example, when a property becomes empty, the asset management team carry out a VFM review of the property. This focuses on three different elements;

V. High maintenance or component replacement costs – disposal will be considered if maintenance or programmed replacement costs are likely to mean that the property will generate low surpluses or make losses over the long term

VI. Poor Net Present Value – where the NPV of the property is low due to a combination of high costs and low income. In practice this is often linked to point i)

VII. High Value – where the opportunity cost of owning the property is high – for example where the property can be sold on the open market and the proceeds used to make further investments into Wandle's properties or services

3.10.6 The work being carried out to understand the financial performance of Wandle's different business stream and property types is providing valuable information to improve the accuracy of the maintenance cost and NPV calculations, enabling the organisation to move from generic assumptions to assumptions based on the performance of specific tenures and property types.

3.10.7 Other aspects of delivering Value for Money through active asset management will be covered in the new Asset Management Strategy.

3.11 Our approach to VFM benchmarking and setting targets

3.11.1 We have selected the L12 group as our peer group for performance benchmarking our, as most of the members are of a similar size and broadly similar sock tenure to Wandle.

3.11.2 Furthermore, the L12 group tends to work collaboratively, often sharing performance information and underlying issues openly, to a depth not available within benchmarking forums. This enables members to target improvements based on best practice shared within the group.

3.11.3 The L12 group includes the following housing associations; Look Ahead, Hexagon, Newlon, Origin, Croydon Churches, Octavia, Phoenix, Shepherd's Bush, Islington and Shoreditch, RHP and Gateway.

3.11.4 Wandle has faced some performance challenges in relation to complaints, customer satisfaction and tenant arrears. For these indicators, it will be practically impossible to improve performance to the median of our benchmarking group within a year. VFM targets in these areas are therefore increased in stages over two or more years until median performance is achieved.

3.11.5 For other indicators, closer to the median, the targets are aimed at achieving median performance over six or twelve months. Where median performance is already exceeded, targets based on upper quartile performance targets are set.

3.12 VFM and Wandle's Group Structure

3.12.1 Wandle has three non-charitable subsidiary companies;

- Delta Homes Limited
- Ravensbourne Developments Limited
- Unitworthy Property Management Limited

3.12.2 Delta Homes is set up in order to recover VAT on professional fees and contractors used by Wandle in the development process. Administration costs for managing the company are low (under £10,000) and the VAT recovery is helpful – £55,000 for 2021/22, so we recovered over 5 x the costs of managing the company in the year, which demonstrates good Value for Money. As the development programme is planned to increase, the VAT recovery rate should also increase.

3.12.2 Ravensbourne was dormant in the year. The only transactions related to a loan repayment by Wandle and a dividend distribution by Ravensbourne to Wandle. Costs of managing this subsidiary are very low, and it is retained in case we decide to diversify our activities at any time in the future (there are no plans currently).

3.12.3 Unitworthy is set up to manage the service charges on a part leasehold, part rental scheme of 33 properties – Wandle carries out the work relating to the service charges, invoices Unitworthy which then charges the tenants. The scheme is managed in this way for contractual reasons.

3.13 Embedding VFM

3.13.1 We have adopted a strategic approach to embedding VFM at Wandle.

3.13.2 A key to delivering VFM is for managers and staff to understand VFM from a strategic perspective. EBITDA (MRI) is a key strategic VFM indicator, which highlights the financial challenges facing Wandle in 2021/22 and 2022/23. So, it had been important for colleagues to understand how this indicator works and its significance to Wandle's current financial position and prospects. This understanding has helped Wandle embed its VFM strategy, gaining the support and buy in of managers and colleagues across the business.

3.13.3 Strategic VFM training started at the managers forum, which is attended by all managers who supervise staff. A presentation highlighted the importance of the EBITDA (MRI) ratio and explained how it is calculated, using the example of household expenditure. Calculating this ratio for Wandle is the equivalent of someone who owns or rents a house or flat making sure that they have enough funds available at the end of the month from their salary (after covering the costs of food, utility bills, repairs and other household expenditure) to make their mortgage or rent payments. If there is exactly enough to make the payment and no more, their personal interest cover ratio would be 100%.

3.13.4 Colleagues clearly understood the analogy and how an equivalent interest cover requirement was place on Wandle by its funders and Regulator. They understood the challenges of 2021/22 and 2022/23, where Wandle's EBITDA (MRI) ratio has come under pressure largely because of the significantly increased responsive repair run rate. Managers responded positively to the challenge of maintaining tight controls over expenditure over the forthcoming financial year (2022/23).

3.13.5 Following the training for managers, similar VFM training was delivered to all staff at the biannual staff conference held in May 2022. Their role in delivering VFM was emphasized, focused around a checklist of the following questions before committing to expenditure;

- Do we really need to spend this money?
- Is there a better way of doing this?
- Will this give good Value for Money?
- Is this someone else's responsibility e.g. leaseholders?
- Is this proportionate?

3.13.6 We have arranged to video the presentation, so that it can be used in future staff training events.

3.13.7 We have set a series of VFM KPIs, both financial and social value, which will help us to target the delivery of the VFM Strategy over the next two years. Performance in achieving these KPIs will be reported to the Exec Team and Board on a quarterly basis in 2022/23. These KPIs have been chosen because they will contribute to the delivery of VFM within Wandle's wider corporate strategy.

3.13.8 This clear focus on delivering of VFM within Wandle's performance management framework helps to ensure that VFM remains front and centre of Wandle's Executive and Board reporting framework.

wandle
EST. 1967

Wandle Value for Money Strategy

2022 - 2024

www.wandle.com
@WandleHA

v:wvfm.001.072022