wandle

Wandle Value for Money Review

2023 - 2024

In 2022/2023 we introduced a new Value for Money (VFM) strategy, taking a strategic approach to VFM. The new VFM strategy defined five key VFM objectives for Wandle:

1. Generate the maximum social and financial return from our assets and other resources for the benefit of our customers.
2. Manage our services through optimised processes that deliver consistently good services to our customers.
3. Carry out option appraisals for our services and assets in order to optimise their economy, efficiency and effectiveness.
4. Work with high performing partners, contractors and suppliers, selected and retained to enhance the services we provide to our customers.
5. 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).

1 Generate the maximum social and financial return from our assets and other resources for the benefit of our customers

Our first priority as a housing association and charity is to provide homes for people in south London who cannot afford to buy their homes on the open market.

Build More Homes

We have continued our Build More Homes programme to enable us to build and acquire more homes, by engaging with tenants who live in homes with a high open market value who may prefer to be rehoused in properties which are more suitable for their needs. The original properties are then sold, and the proceeds are used to develop or acquire more properties for rent or shared ownership. Through this programme our target is to provide up to three new homes for every one we sell.

Since 2021/22 we have sold 50 homes, which we will aim to replace with 150 homes in future years.

Flats converted from street properties

Each quarter we measure the financial and operational performance of our different business streams and property types.

From this analysis we have identified that flats converted from street properties often perform relatively poorly, due to their high repair and investment requirements, relatively low tenant satisfaction and poor energy performance. In the coming year we will identify those properties which are performing particularly poorly and either make further investments in them (to improve their performance) or, alternatively, look to sell them and provide homes elsewhere if such investment would prove uneconomical.

We will use the following metrics to measure the social value and financial returns on our assets:

- **Return on Capital Employed**[1]
- *Return on Capital Employed – based on open market values*[2]
- **Operating margin (Overall)**[1]
- **Operating margin (Social Housing)**[1]
- *Operating margin for different business streams (Overall – before depreciation)*[2]
- **Headline social housing cost per unit**[1]
- **% Gearing**
- **EBITDA MRI**
- Overall customer satisfaction
- No. of complaints per 1,000 properties per year
- % rent loss from empty properties
- Income collected as a % of income due
- **New supply delivered %**[1]
- % satisfaction with repairs delivered (transactionalmeasure)
- **Reinvestment %**[1]
- % of transactions through our MyWandle digital channels

1 Metrics shown in **bold** are set by the Regulator of Social Housing
2 Metrics shown in *italics* are our internal measures which cannot be readily benchmarked against other housing providers

2 Evaluate our services and assets to optimise their economy, efficiency and effectiveness.

New property development

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

Our financial viability principles help to ensure we deliver homes which provide good value for money. Development opportunities are prioritised using these principles to ensure investment is targeted effectively.

Existing property appraisals

When a property becomes empty, we carry out a VFM review of the property. This focuses on three different elements:

a. High maintenance costs – disposal will be considered if the property will generate low surpluses or make losses over the long term and is difficult to repair for our customers.

b. Poor Net Present Value (NPV) – 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 a).

c. High value – where the property can be sold on the open market and the proceeds used to make further investments into Wandle's properties or services.

Appraising our services

We regularly review the way we deliver services to determine the optimum delivery mechanism for each service.

Over the last 18 months we have expanded our in-house responsive repairs service to take on a greater proportion of Wandle's maintenance delivery with the aim of increasing customer satisfaction with repairs. However, we have faced some challenges in recruiting operatives and embedding new processes and practices, which has caused a reduction in customer satisfaction. To address this, we have established a Repairs Steering Group, which is working with the Director of Maintenance and the Head of Repairs to streamline repairs processes and collect feedback from our customers to help us improve their experience of Wandle's repair service.

We have continued to develop our in-house disrepair legal team, enabling us to generate £600,000 savings compared to an equivalent outsourced service.

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

In October 2022 we started to explore options for insourcing our procurement service, which at that time was outsourced. We identified an opportunity to set up a shared procurement service with other housing associations and are currently developing this with two other providers.

In the meantime, we recruited an in-house procurement team, which took on Wandle's procurement function from September 2023. We intend to transfer the staff to the new shared service when it is established.

We generated initial savings of £100,000 from in-sourcing our procurement team. We should achieve further savings once we have established the shared service, as we leverage the financial benefits of joint procurements, and deliver cost effective services for our customers.

4 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).

It is vital that our VFM strategy provides the capacity for Wandle to make future investments into its homes and services.

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. However, like many housing providers, we are facing a wide range of cost pressures, from fire safety remediation works to achieving net zero carbon targets for our properties by 2050. We have therefore decided to relax our EBITDA (MRI) ratio targets for the next three years to accommodate additional investment in our properties and services. We will still maintain significant buffers against our interest covenants.

Our approach to VFM benchmarking and setting targets

We have selected the L12 group of medium sized housing providers in London as our peer group for performance benchmarking, as most of the members of the group are of a similar size and broadly similar stock tenure to Wandle.

The group works 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.

In the table below we have measured ourselves against the metrics in the Regulator for Social Housing's (RSH) Value for Money Standard and Code. We have compared ourselves to latest available national data (2020/21 global accounts) and the median performance of the L12 Group.

Regulatory VFM KPIs

Category	2021/22	2022/23	2023/24	2024/25	National 2022/2023			Peer Group 2022/23*
	Actual	Actual	Actual	Projected	Lower	Median	Upper	Median
Reinvestment	1.06%	1.63%	2.46%	6.50%	4.30%	6.70%	9.40%	3.65%
New supply	0.32%	0.48%	0.19%	0.60%	0.60%	1.30%	2.20%	0.60%
Gearing	31%	29%	29%	29%	33%	45%	54%	46%
EBITDA MRI	80%	79%	60	51%	89%	128%	169%	46%
Headline social housing cost per unit	£5,759	£6,134	£7,636	£7,652	£4,082	£4,586	£5,847	£7,218
Operating margin – Social Housing Lettings	22%	19%	11%	20%	14%	20%	26%	12%
Operating margin overall	20%	16%	12%	20%	12%	18%	23%	13%
Return on Capital Employed (ROCE)	2.66%	3.51%	2.33%	3.20%	2.20%	2.80%	3.60%	2.00%

* Our peer group, the L12, is a group of medium-sized, London-based, housing associations: Croydon Churches (ccha), Eastend Homes, Gateway, Hexagon, isha, Karibu, Look Ahead, Newlon, Phoenix, Poplar HARCA, RHP and Wandle.

Reinvestment and new supply

Reinvestment is a measure of our financial investment in new and existing properties in the year, shown as a percentage of our total financial investment in properties at the beginning of the year. New supply is the percentage increase in number of properties owned.

Our levels of reinvestment and new development were below the sector and peer group average in 2023/24, as we continued to transition from a planned pause in our new development programme. However, in line with our new homes growth strategy, our new supply ratio is forecast to increase rapidly in 2024/25, with 35 homes in development and a further 30 acquisitions planned in the year.

This increase in delivery, along with a forecast net investment of £4.2m in a programme of fire remediation work in response to the government's building safety legislation, is projected to increase our reinvestment ratio to 6.5% in 2024/25, in the third quartile using national benchmarking for 2022/23, and well above the 2022/23 median for our peer group.

Gearing

Gearing is net debt as a percentage of the cost of our assets.

As the table shows, our gearing ratio is strong when compared to our peer group and is in the top quartile based on national benchmarking. Our gearing ratio is forecast to remain strong over both the short and longer term.

EBITDA (MRI) and headline social housing cost per unit

EBITDA (MRI); Earnings before interest, tax, depreciation, amortisation (major repairs included) as a percentage of interest payable.

In common with many other housing providers, Wandle has been facing significant financial challenges in meeting the government's fire and building safety requirements which have been introduced since Grenfell. We are committed to spending an estimated £33m (£27m net) to remediate 14 schemes over the next four years. This expenditure will reduce our EBITDA (MRI) ratio for 2024/25, 2025/26 and 2026/27, before it is forecast to return to 100% in 2027/28. Although this will be a significant reduction in this ratio compared to 2023/24, we are projecting that we will still comfortably comply with our funding covenants.

Headline social housing cost per unit

Total social housing costs divided by the number of social housing units owned or managed at the period end.

Headline social housing cost per unit is a key measure of cost efficiency. This metric has increased by 24.5% in 2023/24. The increase in costs reflects an increase of £3.6 million to £8.4 million in planned investment in our properties, as well as an increase in costs related to day to day repairs.

We have a relatively high headline social housing cost per unit compared to national benchmarks, but we believe that our peer group analysis is the more relevant comparison, as London housing providers typically face significantly higher costs than those elsewhere in the country. We are still below the median of our peer group.

Wandle continues to target VFM savings and income generation in 2023/24. Our hybrid working model has enabled us to reduce our office costs, with the in-sourcing of our procurement team and the recruitment of an in-house disrepair team both generating cost savings.

Operating margin – overall and for social housing

Overall operating margin; Overall operating surplus as a percentage of overall turnover.

Social housing operating margin; Operating surplus from social housing lettings as a percentage of turnover from social housing lettings.

Social housing operating margin is a key indicator of the financial health of our core social housing business. The performance of this measure has also been significantly impacted by the increase in responsive repair costs between 2021/22 and 2023/24, an £8.4 million increase in planned investment, and an increase in provisions for fire safety remediation work in 2023/24 of £1.9 million, resulting in decreasing operating margins over the last three years.

We are in the third quartile when compared with 2022/23 national benchmarks, but others in our peer group are experiencing even greater cost pressures than Wandle, and so we are performing ahead of our peer group median.

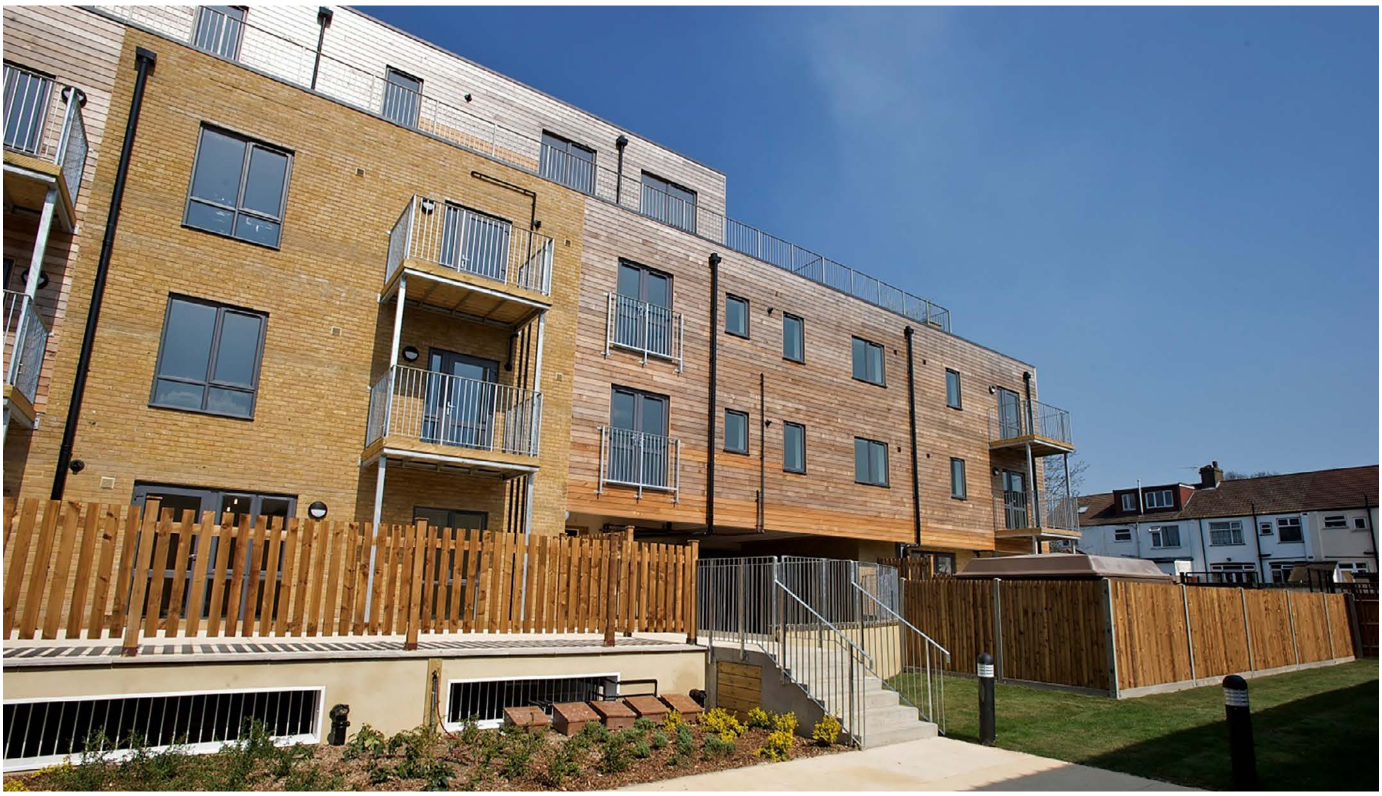
Our overall operating margin includes surpluses from shared ownership sales, and the impact of any property impairments. In 2023/24 we increased the impairment of one of our development schemes by a further £1.25m.

Our overall operating margin measure is ahead of our peer group median and in line with the median from the national benchmarking.

Return on capital employed

Operating surplus as a percentage of total assets, less current liabilities.

We are generating a comparable Return on Capital Employed (ROCE) to our peer group. It is worth noting that the level of shared ownership and other property sales has a big impact on ROCE, so housing providers with larger property sales programmes will tend to report a higher ROCE than Wandle.



Wandle's specific VFM performance indicators

We believe it is important to set and monitor VFM performance indicators which are specific to Wandle, as these can be targeted on aspects of VFM that need to be developed and improved. We have agreed a set of Wandle VFM measures as part of our revised VFM strategy;

VFM indicator	2022/23 Actual	2023/24 Actual	2024/25 Target	Median Benchmark	Benchmark-Housemark or L12
Lag Indicators					
Overall tenant satisfaction with landlord services	51%	59.5%	62%	60%	L12
Formal complaints received per 1000 units	273	194.8	<200	67.85	London Housemark[1] 2023/24
% void loss	1.59%	0.55%	0.96%	1.81%	London Housemark[1] 2023/24
Income collected as a % of income due	100%	101%	100%	Data not available	
Lead Indicators					
Return on Capital employed based on OMV	1.1%	0.7%	0.9%	Data not available	
% of transactions through digital contacts	18.3%	17.6%	18%	20%	Housemark 2023/24

Notes

1 Housemark benchmark of London housing providers

We have deliberately chosen a mixture of lag indicators (which highlight historical performance) and current/lead indicators (which show current performance and emerging trends) for our specific VFM indicators to ensure that we have a balanced view of our performance.

We continue to make excellent progress in improving **customer satisfaction with landlord services** – increasing to 59.5% in 2023/24, an increase of 8.5 percentage points. Satisfaction increased by 20 percentage points to 2022/23. This is at a time when many other housing providers are seeing a reduction in recorded satisfaction following the introduction of mandatory Tenants Satisfaction Measures (TSMs) by the Regulator of Social Housing. We have established a Customer Excellence panel and a Customer Experience Committee to drive forward a range of customer service initiatives. These initiatives, combined with a continuing focus on service improvement from Wandle's front-line and back-office teams have driven this considerable improvement in customer satisfaction.

We have also made good progress in reducing the **number of complaints we have received per 1,000 properties over the last 12 months**, with the number of complaints reducing by 29% from a very high base. It is worth noting that the complaints trends in the sector have been getting rapidly worse since the pandemic, with an increase of 260% in complaints recorded by London Housing Associations between 2019/20 and 2022/23

Income collection has once again showed a strong performance, as 101% of rent due was collected. This reflects the continuing good work of the income team, who have reduced rent arrears in contrast with many other housing providers who have struggled to maintain rent collection levels in the face of the cost of living crisis.

Void loss was also minimised at 0.55%, a great outcome compared with to a 1.59% result in 2022/23 and a London benchmark of 1.81%

'Return on Capital based on vacant possession market value (ROCE(VPMV))' is a new indicator for Wandle, which is useful for assessing the success of alternative asset investment strategies. For example, the *'Return on Capital employed'* for Wandle's converted street properties in 2023/24 is 9.7% which compares very favourably with the 3.7% *Return on Capital employed* for general needs properties as a whole. However, the very low original purchase price for the converted street properties is skewing the result.

The alternative measure - *ROCE(VPMV)* for street properties is 0.7%, which is low compared to a *ROCE(VPMV)* of 1% for general needs properties as a whole, which accurately reflects the high costs of managing and maintaining these properties. This measure therefore gives a much more useful assessment of the relative performance of this type of property.

We have faced some challenges in developing Wandle's digital channels over the last two years, with 17.6% of enquiries and service requests responded to through electronic channels compared to a benchmark of 20% for other housing associations. We are targeting improved take up of digital services for our customers by developing our resident portal further to increase the functionality available to residents, starting with making it easier to report a repair.

Wandle
Second Floor
230 Blackfriars Road
London
SE1 8NW

0300 2000 120
www.wandle.com

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