



Owner: Tom O'Malley

Last Reviewed: March 2020

Next Review: March 2021

Value for Money Strategy

1. Background

- 1.1 Being an efficient and effective organisation is essential to the delivery of Newlon's main business objectives. It is an area of priority for the Board, who consider it a commercial necessity as well as an obligation to drive value for money (VFM) through the business. Our position as a developing association increasingly relies on our ability to become ever more efficient and continue to generate healthy margins.
- 1.2 Maximising value for money in public services is also government priority and is actively regulated by the Regulator of Social Housing (RSH), who have made value for money a central element of their In-Depth Assessment (IDA) process.
- 1.3 *"Boards' ability to articulate and deliver a comprehensive and strategic approach to value for money is a leading indicator of good governance. We seek assurance that boards have a comprehensive strategy to deliver ongoing improvements in efficiency and ensure they are using their resources and assets in the most cost-effective way to deliver the provider's overall strategy".*

Regulating the Standards, Homes and Communities Agency, July 2016.

- 1.4 Whilst this strategy is focused mainly on the Newlon's activities as a housing provider, Newlon is also the parent of a Group and the Board acknowledges that it is important to consider both the relationship between the housing business and the Group as a whole and identify opportunities to improve efficiency across the Group. The Group should be a means of enhancing the value of our offer to our residents and delivering economies of scale.

2. Our Definition of Value for Money

- 2.1 Our definition of value for money is very simple. The Board have chosen to focus on just two core objectives and our aim is to maximise the potential of our resources to:
 - Deliver as many new homes as possible.
 - Provide good quality, reliable, continuously improving services across the Group.
- 2.2 We believe that value for money should be integrated into regular business planning, performance monitoring and decision-making. Understanding and achieving value for money is fundamental to the success of the business and our determination to deliver good value should be evident in everything we do. Consideration of VFM is built into our annual planning and reporting.
- 2.3 The overall responsibility for delivering value for money lies with the Board and reporting to the Board will be strengthened, with quarterly reports based on the Sector

Scorecard and any other chosen indicators. The Chairs of Resident Services Committee, Audit & Risk Committee, Remuneration and Appointments Committee and Development Committee are responsible for ensuring that value for money is considered as part of the decision-making process.

3. The Scope of this Strategy

3.1 This Strategy will address VFM in relation to the pursuit of our two corporate objectives:

- Delivering new homes.
- Providing good quality, efficient services.

It will also address the way we work, covering three important VFM principles that underpin organisational efficiency and maximise value:

- How we ensure the best use of our assets.
- How we will challenge costs and obtain value for money in the procurement of goods and services across the Group.
- How we will work to improve the overall efficiency of the business, including improvements to systems and sharing these benefits across the Group.

For the purpose of this strategy, these have been translated into 5 Value for Money Commitments that headline sections 5 to 9 of this document:

- 1) **Growth:** We will maximise the potential of our resources in order to deliver more homes
- 2) **Services:** We will provide good quality services and increase customer satisfaction without exceeding the sector median for management costs.
- 3) **Assets:** We will seek to maximise return on our current property assets whilst maintaining a tenure mix that fulfils our charitable mission.
- 4) **Costs, Savings and Procurement:** We will scrutinise spending and challenge costs to ensure we reduce waste deliver greater value.
- 5) **Business Efficiency:** We will deliver efficiencies across the Group by reducing overheads, streamlining back office processes and systems, making better use of data, automating processing activity and improving cost analysis.

4. A summary of our current position

4.1 The Board have been provided with the latest benchmarking of Sector Scorecard and RSH metrics against a peer group of London housing associations. A summary of strengths, weaknesses and points of interest are set out below and a benchmarking report using the 18-19 Global Accounts is included as Appendix A.

The Trust and Group are strong on overall measures of financial health and profitability:
<ul style="list-style-type: none"> • Operating margin – Q1 • Operating margin social housing lettings - Q1 • Overheads as a % of turnover (Trust) – Q1
If Business Plan targets are met, development will also be a strength:
<ul style="list-style-type: none"> • Units developed absolute – expectation based on Business Plan Q2 • New supply delivered % - expectation based on Business Plan Q2

We are generally good performers when it comes to indicators of operational efficiency within the social housing business:
<ul style="list-style-type: none"> • Management cost per unit (Trust) – Q1 • Ratio of Responsive to Planned Repairs Q1
Although we are not outliers, key financial ratios tend towards the riskier end of the peer group. The risks, however, are well understood by Board and there is no appetite to be more conservative in our ambitions in order to improve ratios that are manageable at the current level:
<ul style="list-style-type: none"> • Gearing – Q3 • EBITDA MRI – Q3
Outcomes for residents are mixed. Whilst resident satisfaction has gradually improved over the past 5 years and is now in line with the London median, there is still room for improvement and greater consistency. Rent collection was in the bottom quartile last year, though we have seen a long term trend of arrears reduction and fewer evictions since community services were brought in-house.
<ul style="list-style-type: none"> • Overall Resident Satisfaction – M • Rent Collected % - Q4 • Occupancy – Q2
Despite comparatively low management costs, headline social housing unit costs are no longer top quartile for London. This has been mainly driven by two factors: 1) an increase in short-term investment in health and safety, 2) a decision by the Board to invest more in Major Repairs. The positive effect of this decision translates into a very healthy performance on Reinvestment %, demonstrating that, relative to other providers, a very high level of our resources are being invested directly into delivering positive housing outcomes for current and future residents.
<ul style="list-style-type: none"> • Headline Social Housing cost per unit – Q2 • Maintenance cost per unit – Q3 • Reinvestment % - Q1
Our main areas of weakness have been identified by the Board for particular attention. Priority has been given to improving asset management performance and reducing service costs through procurement.
<ul style="list-style-type: none"> • Service costs per unit – Q4 • ROCE – Q3

5. Commitment 1 – Growth

“We will maximise the potential of our resources in order to deliver more homes”.

5.1 Maintaining our ability to develop new homes to meet housing demand has to be central to our Value for Money Strategy. As well as being one of our main business objectives, it is an activity that is to the benefit of all stakeholder groups:

- Increasing housing options for potential future residents.
- Meeting housing demand and contributing to community regeneration within client boroughs.
- Easing pressure on local housing markets, promoting community cohesion and stimulating the economy.

5.2 Secure finances are a prerequisite if we are to continue delivering a steady supply of new homes. For this reason we will continue to:

- Undertake a rigorous budget setting process.
 - Keep in touch with best practice and conduct thorough stress testing.
- 5.3 As part of the development of our Growth Strategy, we carried out an appraisal of demand in the local authorities within and adjoining our current area of operation so we can be confident that we are developing in areas where there is unmet housing need.
- 5.4 The Board has decided to invest in commercial development to support the development of social homes. We have entered into our first joint venture and the Board sees careful, de-risked investments of this kind playing an important role in our Growth Strategy going forward. Surpluses from any commercial ventures will be used to subsidise new housing.
- 5.5 We will maintain a mixed programme of social, affordable and shared ownership within a blended programme of land led and lower risk section 106 schemes. The Board considers this to be a balanced approach to development that spreads risk and delivers good value. The Group structure is a key asset in respect of our development programme. NewlonBuild and NewlonInvest facilitate growth plans by acting as vehicles for tax efficient construction and profitable investment, ensuring the maximum possible value is achieved.
- 5.6 The Board has indicated an appetite for mergers if they have the potential to boost development capacity or deliver economies of scale in relation to management and maintenance costs.
- 5.7 There are opportunities to obtain better VFM from marketing and advertising. These services are currently out to tender. As well as cost, greater value can be obtained through enhancements to reporting on the effectiveness of campaigns, the origin of leads etc...by constantly reviewing this we can obtain greater value from our marketing budget and this may be critical if the property market remains difficult.
- 5.8 Our approach to delivering value for money through continued growth is summarised in the table below:

VFM Commitment	Delivered by	Measure
<i>We will maximise the potential of our resources order to deliver more homes.</i>	Maintaining profitability	Sector Scorecard: Operating Margin
	Manageable borrowing	Sector Scorecard: EBITDA MRI Interest Cover Gearing Plus: Weighted Adjusted Cost of Capital low vs sector.

VFM Commitment	Delivered by	Measure
<i>We will maximise the potential of our resources order to deliver more homes.</i>	Average of 200 new homes a year to 2023 and 300 after.	Sector Scorecard: Total units developed Units developed as a % of stock.
	Surplus from commercial ventures.	Risk Appetite Report: Predicted surplus from commercial
	Potential merger opportunities.	Risk Appetite Report: Merger that delivers economies of scale or boosts development capacity.

6. Commitment 2 - Services

“We will provide good quality services and improve customer satisfaction without exceeding the sector median for management costs.”

- 6.1 We will continue to aim to deliver good quality, reliable services at a lower than average cost. We benchmark service cost and quality annually through the Sector Scorecard and results show that our costs are below average compared to other London providers.
- 6.2 Our priority in terms of services is to ensure that we keep meeting targets for performance indicators and make incremental improvements in satisfaction without increasing management costs.
- 6.3 We will achieve this by applying these principles both within the Trust and, where possible, across the Group:
- Having specialist teams with clear accountability rather than generic roles.
 - Shifting more resident interactions to digital channels.
 - Integrating systems, both internally and with key contractors.
 - Continuing to regularly consider alternative delivery methods such as outsourcing, price per property and wholly owned subsidiaries – specific opportunities are identified in the Action Plan at the end of this document.
 - To specifically consider the value provided by existing partners where housing management activities are outsourced.
- 6.4 The work of the Resident Services team will be targeted at households that are suffering hardship or at risk of falling into rent arrears. Services such as income maximisation and distribution of hardship funds provide a safety net to some of our most vulnerable residents whilst also promoting tenancy sustainment and improving reliability of rent payment which makes sound business sense. Outcomes will be reported annually to the Newlon Board.

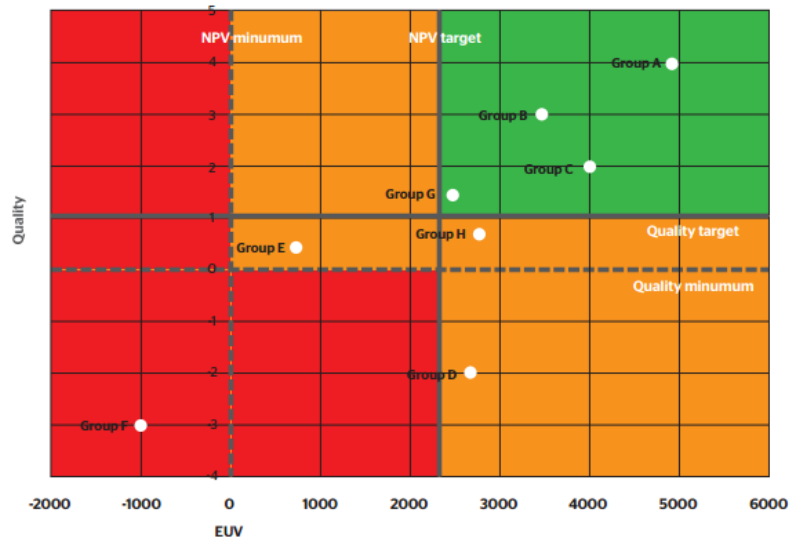
- 6.5 We will continue to work with Outward to ensure that our residents have access to high quality care, support and ensure a consistently high standard of housing management across the Group by sharing knowledge, systems, training and central services. Outward will set their own satisfaction and efficiency targets that will be reported annually to the Newlon Board.

VFM Commitment	Delivered by	Measure or source of assurance
<i>We will provide good quality services and improve customer satisfaction without exceeding the sector median for management costs.</i>	Improving resident satisfaction	Sector Scorecard: % satisfied with the service overall
	Maintaining lower than average cost	Sector Scorecard: Management Cost per unit Maintenance Cost per unit
	Improving efficiency indicators	Sector Scorecard: Rent collection Occupancy
	Providing added value to customers through community services and Outward.	Additional metrics: £ Social Value generated (HACT Measure) £ invested to £s of support provided (actual) % supported housing residents satisfied

7. Commitment 3 - Return on Assets

“We will seek to maximise return on our current property assets whilst maintaining a tenure mix that fulfils our charitable mission.”

- 7.1 We have developed a comprehensive stock appraisal model which categorises groups of property assets based on a blend of existing use value (EUV) and quality indicators such as satisfaction and intensity of housing management. A traffic light system is then applied as in the example below:



- 7.2 This helps the Board to make informed decisions to invest, disinvest, hold or convert different property groups and develop a comprehensive strategy that balances the pursuit of charitable objectives with commercial viability whilst considering implications for communities, current and future tenants.
- 7.3 Poor performing asset groups are flagged for appraisal and may be sold in line with a programme of disposal and reinvestment agreed by the Board – either in existing properties or new homes.
- 7.4 The Board has set a five-year Asset Investment Plan based on detailed, independently validated stock information. Though this substantial investment will increase Newlon’s headline social housing cost, implemented alongside a strategic disposal programme, it will improve long-term viability by boosting the overall efficiency of stock and should lead result in higher levels of resident satisfaction.

VFM Commitment	Delivered by	Measure or source of assurance
We will seek to maximise return on our current assets whilst maintaining a tenure mix that fulfils our charitable mission.	Improved efficiency of stock	Sector Scorecard: Return on Capital Employed Ratio of planned to Routine maintenance
	Improved Satisfaction	Additional Metric: % satisfied with condition
	Surplus reinvested in new homes	Sector Scorecard: Reinvestment %

8. Commitment 4 - Costs, Savings and Procurement

“We will scrutinise spending and challenge costs to ensure we reduce waste deliver greater value.”

- 8.1 Our overall strategy in terms of reducing central costs is to absorb growth without significant increases in costs.
- 8.2 Each year the Board will consider the budget alongside the updated Ten-Year Vision and detailed team plans to satisfy themselves that the business is making best use of resources. Plans for the coming year will be presented with the predicted impact on unit costs, allowing the Board to make decisions about the allocation of resources with reference to overall impact on costs.
- 8.3 Since the tragedy at Grenfell 2017 there has been considerable upward pressure on maintenance and major repairs costs due to additional expenditure required to remain compliant with revised health and safety standards.
- 8.4 With remediation works planned over a number of years and the Board due to revise the Asset Management Strategy in expectation of rising standards in relation to environmental performance, we do not expect this to be an area of cost reduction in the medium term.
- 8.5 The Board has resolved to seek recovery of costs related to cladding and defects in tall buildings through contractors and insurers wherever practically possible. Where grants are available without conditions that would adversely impact the business, applications will be made.
- 8.6 Despite these pressures, there are still opportunities to deliver cashable savings and business efficiencies through procurement. A forward procurement plan has been set and we will use procurement as an opportunity to:
 - Make cashable savings.
 - Improve service quality.
 - Improve data exchange or integrate systems.
 - Consolidate invoicing.
 - Streamline business processes.
 - Consider alternative delivery methods.
- 8.7 A report on future procurement opportunities will be brought to the Board in the final quarter of each year, from this, targets will be agreed and incorporated into the team plans in the Ten-Year Vision. Savings will be reported to the Board annually and included in the VFM Report in the Financial Statements.
- 8.8 The Sector Scorecard shows that Newlon has higher service charges than the majority of providers. Higher charges are not unusual for the kind of high density, modern, metropolitan housing schemes that make up much of Newlon's stock but the Board have identified this as an area for extra scrutiny.

- 8.9 We know from insight gained from resident focus groups that service costs are a concern for residents and, because it is problematic to demonstrate value for money through comparisons with other providers, we must continue to ensure that we are, and that we are seen to be, transparent on service costs and procurement.
- 8.10 We will be accountable to residents on the cost and quality of services, encourage feedback and use it to gain better value for money for customers and the organisation as a whole. Specifically, we will:
- Provide clear information about the scope, cost and standard of services on each estate.
 - Establish and publicise simple mechanisms to capture feedback about the quality, cost and frequency of services.
 - Provide contractors with resident feedback as standard in contract management meetings.
 - Where possible, we will Incorporate resident feedback into the annual contract review process and allow them to influence the specification of services.
 - Annually publish outcomes from resident consultation in the VFM section of the Residents' Annual Report.

VFM Commitment	Delivered by	Measure or source of assurance
We will scrutinise spending and challenge costs to ensure we reduce waste deliver greater value.	Cost and efficiency savings from Procurement.	Sector Scorecard: Headline Social Housing Cost Service Cost Per Unit Additional: Procurement targets in Ten Year Vision Savings reported to Board
	Using the budget setting process to ensure we keep operating costs low	Sector Scorecard: Management Cost Per Unit

Commitment 5 - Overall Business Efficiency

“We will deliver efficiencies across the Group by reducing overheads, streamlining back office processes and systems, making better use of data, automating processing activity and improving cost analysis.”

- 9.1 We have already worked towards cutting overheads at Group level through optimising the resources of the Group such as office space, systems and back office functions. We will continue to look at opportunities to combine and streamline as well as examining the way we could do things more efficiently and deliver savings to each of the group members.
- 9.2 The Group Chief Executive is undertaking reviews of the Group from a Value for Money perspective over the three year period to 2022.

- 9.3 Previous sections of this strategy have mentioned opportunities to gather and use data more efficiently. A relatively large amount of staff resource is currently committed to back office processing activities – e.g. invoice processing and payment, allocation of service charges and preparation of statements, payroll processing, rent processing, credit control, manual maintenance of timesheets, service charge accounting etc..
- 9.4 There are considerable opportunities to improve the efficiency and accuracy of these processes through automation, part automation or improved use of data. In some cases, processing can be transferred to customers and contractors through portals providing direct links into our systems. There are incentives for customers and contractors to work this way, so there is no reason that such steps should impact negatively on resident satisfaction or contractual relationships as long as they are implemented sensitively. Taking these opportunities through our Digital Strategy will enable the Board to redeploy resources to improve satisfaction and service outcomes.
- 9.5 Reviews of the chart of accounts and the purchase to pay system are underway and these are critical projects as high-quality management information on costs will be key to unlocking future efficiency savings as well as delivering planned improvements to the management of service charges. In order to continuously improve VFM we need to become more sophisticated in our cost reporting and develop a more granular understanding of unit costs.
- 9.6 Considering that in the next five years, the emphasis of many jobs will shift from accurate processing to useful analysis, we need to consider recruitment and training strategies to ensure that we attract and foster the right sort of skills for a changing business.

VFM Commitment	Delivered by	Measure or source of assurance
We will aim for our management costs to be consistently below the London Median.	Using the budget setting process to ensure we keep operating costs low	Sector Scorecard: Management Cost Per Unit

Appendix A

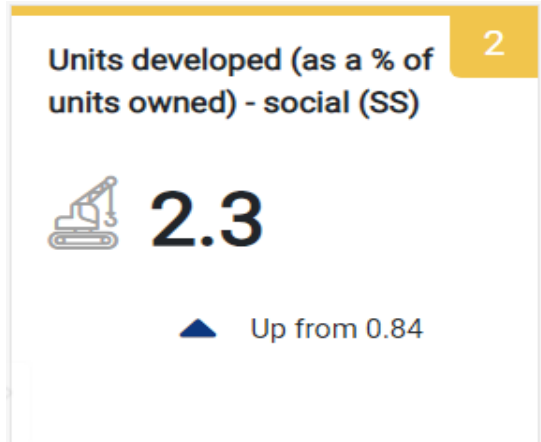
Performance against VFM Commitments

Benchmarking Report

February 2020

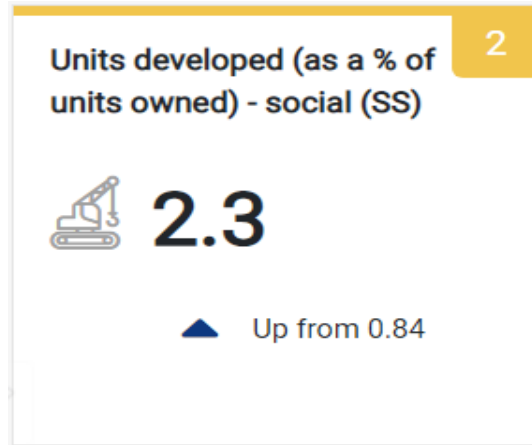
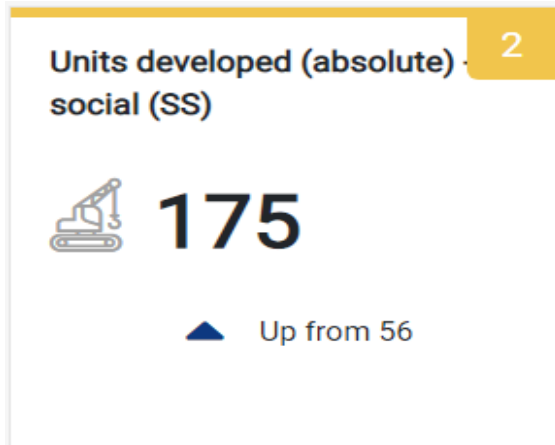
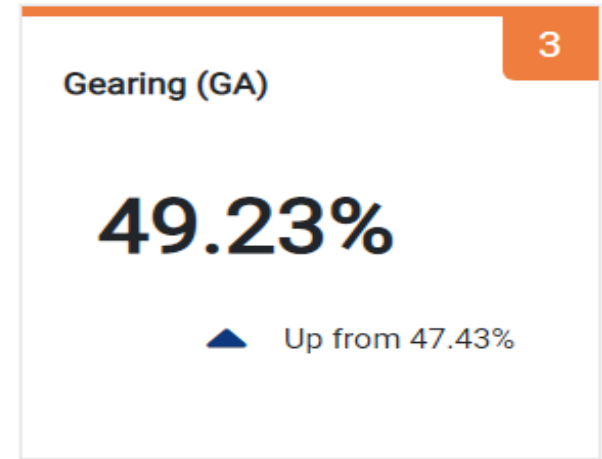
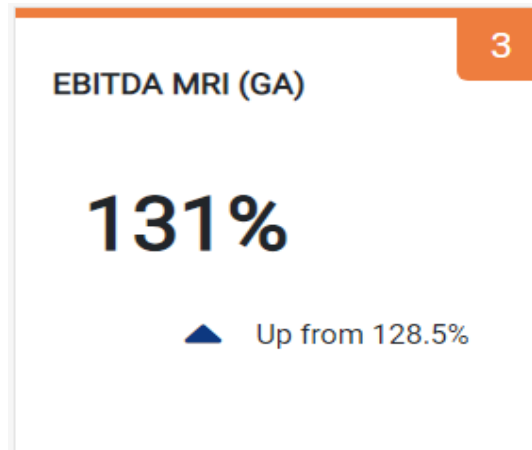
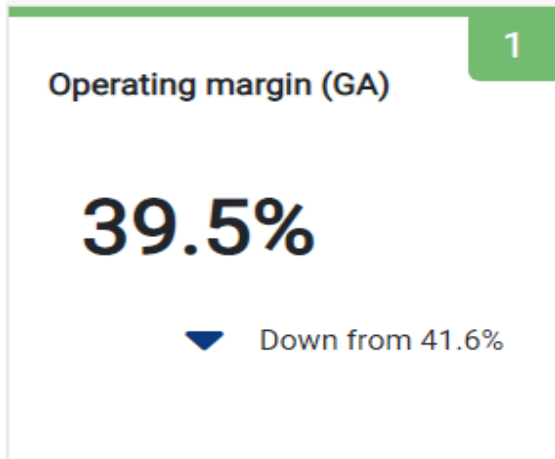
Intro

- Review of VFM Metrics
- 5 VFM Commitments in VFM Strategy
- Data from 18/19 Global Accounts (a few exceptions)
- Peer Group – London traditional & LSVT
- Quartile performance shown in top right of tiles



Commitment 1 – Growth

“We will maximise the potential of our resources in order to deliver more homes”.



Weighted Average Interest

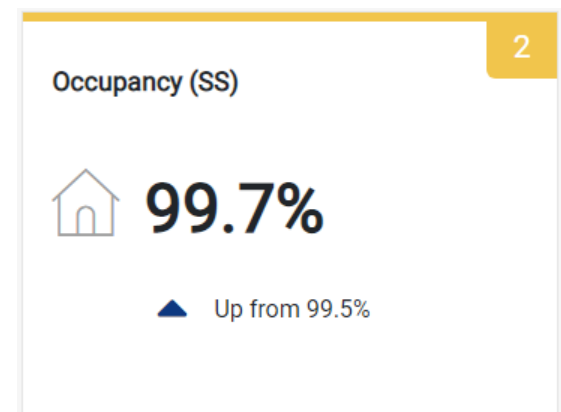
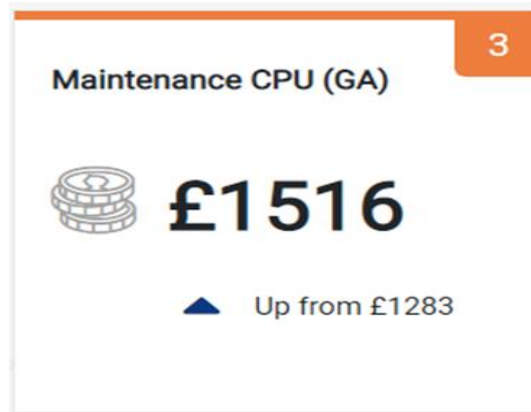
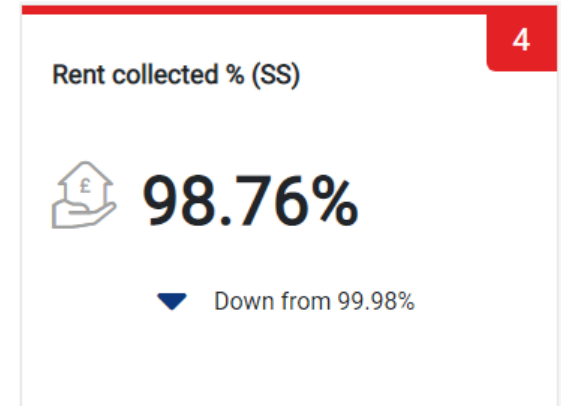
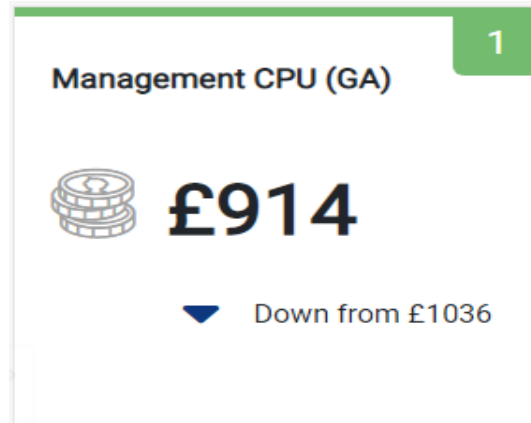
No 18/19 benchmarking is available for this indicator, however, Newlon is currently at **3.6%** compared with a sector median of **4.5%** in 17/18.

Commitment 2 – Services 1

“We will provide good quality services and improve satisfaction without exceeding the sector median for management costs”.

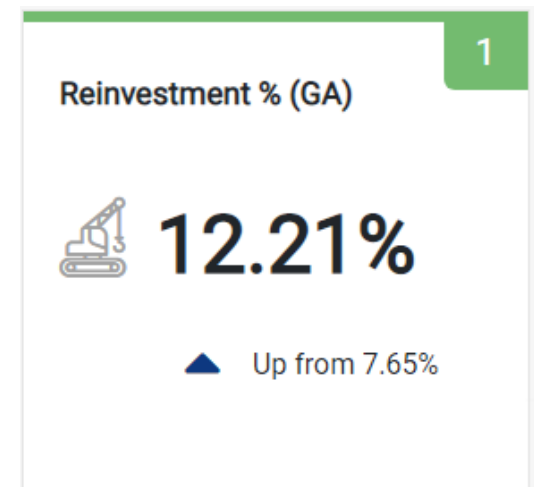
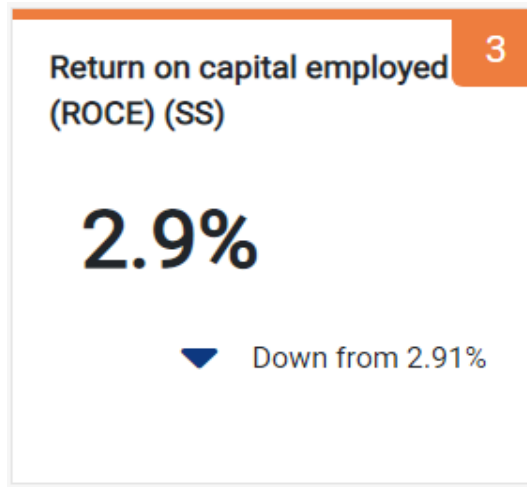
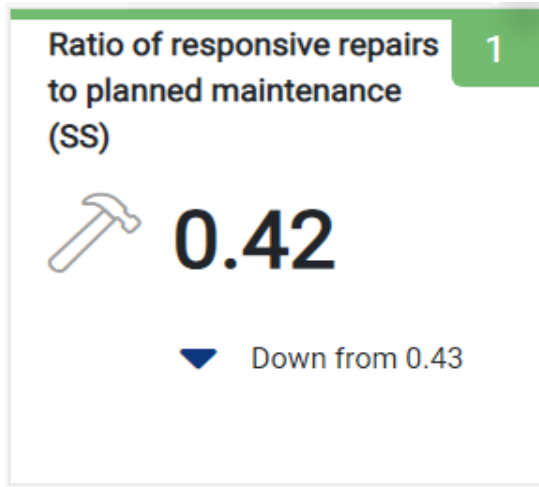
% Satisfied Overall – M

Overall satisfaction is **up 1%** on the previous year at **74%** compared with a London median of **74%** in 18/19.



Commitment 3 – Return on Assets

“We will seek to maximise return on our current property assets whilst maintaining a tenure mix that fulfils our charitable mission”.



Satisfaction with Property Condition

69% of Newlon residents were satisfied with the condition of their property. There is no available benchmark but this is **up 2%** from the previous year.

Tenure mix of new units 2018/19

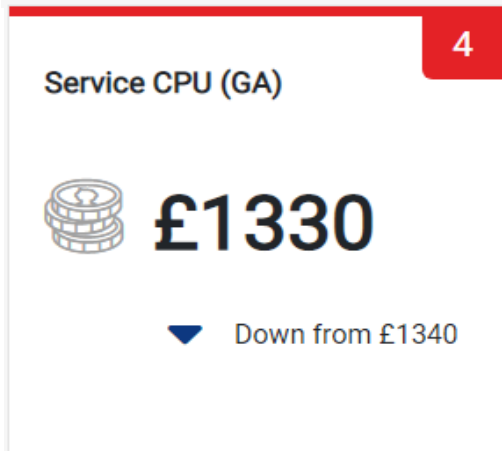
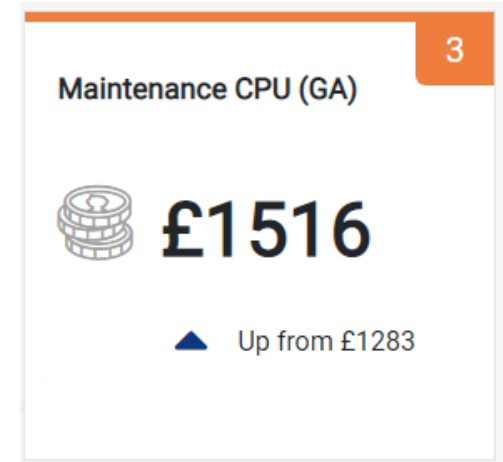
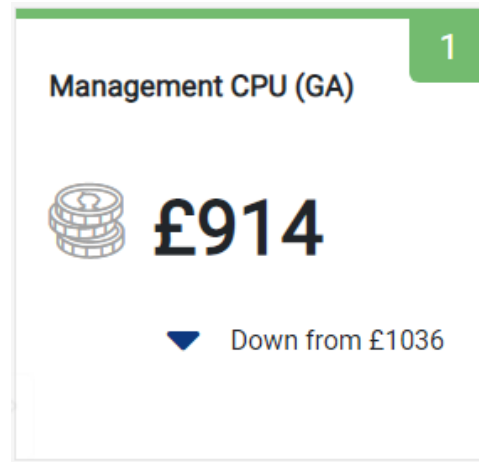
54% Social, Affordable & Intermediate Rent

41% Low cost home ownership

5% Supported Housing

Commitment 4 – Costs and savings (1)

“We will scrutinise spending and challenge costs to ensure we reduce waste and deliver greater value”.



Progress on targeted savings in 19/20:

- **Cleaning services – 5% target – MET and exceeded**
- **Heating system maintenance – Efficiency - MET**
- External audit services – No saving
- **Building security systems – Delayed (due to H&S contracts)**

Commitment 4 – Costs and savings (2)

“We will scrutinise spending and challenge costs to ensure we reduce waste and deliver greater value”.

Proposed savings targets for 20/21:

Contract	Spend PA	Target
Door and window replacement	£750k	5%
Kitchen and bathroom replacement	£220k	5%
Water maintenance	£250k	5%
Insurance	£750k	5%

Consideration of alternative delivery models:

- Fixed price per property.
- Warden services & thermal imaging.
- Maintenance services for Hornsey Housing Trust
- Estate inspectors and concierge.

Commitment 4 – Costs and Savings (3)

“We will scrutinise spending and challenge costs to ensure we reduce waste and deliver greater value”.



Housing maintenance



Commitment 4 – Costs and Savings (4)

“We will scrutinise spending and challenge costs to ensure we reduce waste and deliver greater value”.

Housing management



Commitment 5 – Overall Business Efficiency

“We will deliver efficiencies across the Group by reducing overheads, streamlining back office processes and systems, making better use of data, automating processing activity and improving cost analysis”.

Overhead costs (% of adjusted turnover)

