



Owner: Tom O'Malley
Last Reviewed: December 2021
Under review in 2023

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 residents 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. How We Deliver Value for Money

- 2.1 In March 2021, the Board approved a new Corporate Plan. Instead of focusing on two core objectives, the scope of the plan has been broadened to identify five strategic priorities. This is a response to both changing regulation and some other challenges facing the sector. It ensures that, in addition to growth and service improvement, equal focus is placed on asset investment, organisational resilience and working culture, and achieving value for money.
- 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. A VFM Working Group will be responsible for

converting this Strategy into actions that will be incorporated in the 2022/23 Corporate Plan.

- 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, People and Governance 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 corporate objectives, which, for the purpose of this Strategy have been translated into 5 VFM Commitments:

Objective	Commitment
Excellent Services	We will deliver effective services that residents can access easily and that meet their needs. We will challenge ourselves and our contractors to deliver the best value possible on behalf of our residents.
High Quality Homes	We will ensure that homes are safe and decent whilst working towards making our overall stock more environmentally and economically efficient.
Growth	We will deliver a steady supply of new homes that meet the needs of future residents.
An Efficient and Effective Business	We are an organisation for the long-term and will ensure there are strong foundations even in uncertain times. We will make careful decisions about our use of resources and, where costs are passed on to residents, work on their behalf to ensure these are good value for money.
A Dynamic Workplace	We will drive a culture of VFM and 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:

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 – Q2 • Overheads as a % of turnover (Trust) – Q1
The Trust has delivered a relatively high number of new homes compared to peers and has delivered a high level of reinvestment in properties overall:
<ul style="list-style-type: none"> • Units developed absolute (social) – Q1 • New supply delivered % - Q1
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) – Q2 • Ratio of Responsive to Planned Repairs Q1 • ROCE – Q2
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 are a consequence of a 10 Year Vision that prioritised new development:
<ul style="list-style-type: none"> • Gearing – Q4 • EBITDA MRI – Q3
Despite comparatively low management costs, headline social housing unit costs have risen – moving from Quartile 1 to Quartile 3 for London over the past two years. This has been mainly driven by two factors: 1) an increase in short-term investment in health and safety including fire wardens, 2) a decision by the Board to invest more in stock improvement. The positive effect of this decision translates into a very healthy performance on Reinvestment %, however, it is likely that we will need to increase investment to improve the quality and environmental performance of our stock.
<ul style="list-style-type: none"> • Headline Social Housing cost per unit – Q3 • Maintenance cost per unit – Q4 • Major repairs cost per unit – Q2 • Reinvestment % - Q1
Outcomes for residents do not currently compare well with peers. Whilst we saw a gradual but steady improvement in resident satisfaction until the end of 2020, latest satisfaction results have been below the reported median for other housing providers. A growth in the number of complaints over recent years also indicates that service quality needs to be an area of focus as part of this Strategy.
<ul style="list-style-type: none"> • Overall Resident Satisfaction – Q3/4 • Rent Collected % - Q4 • Occupancy – Q4

5. The Operating Environment

5.1 Value for Money is often defined in the terms of ‘The Three Es’:

Economy – low costs

Efficiency – high productivity

Effectiveness – the right outcomes

5.2 There have been significant changes in the sector and the wider operating environment since the last version of the VFM Strategy was approved by the Board in March 2020, many of which mean it is more challenging to deliver VFM.

5.3 With inflation at 3.8% (Consumer Price Index Nov) at its highest for almost 10 years

and construction materials costs having increased over 20% between September 2020 and September 2021 (Construction Material Price Index), it is an exceptionally challenging time to try to deliver cost savings. As well as affecting the cost of construction and repairs, this also impacts overhead costs such as insurance. As well as making service delivery more challenging for us and our partners, this means that it is almost inevitable that residents will see an increase in service charges.

- 5.4 Skilled labour shortages resulting from a mixture of Brexit and the pandemic have been compounded by disruption of global supply chains and scarcity of some components and materials, leading to delays in the delivery of services and projects.
- 5.4 Internally, there is growing competition for resources with new regulatory frameworks on the way for consumer standards and building safety, a large and complex regeneration project at Barnsbury, and the requirement to invest more in existing homes achieve higher standards and improve environmental performance.
- 5.5 Whilst we need to maintain the robust budgeting and procurement processes that have been designed to deliver greater **economy** and minimise cost increases, against this backdrop a sensible approach to VFM is to identify some key areas where we know there is scope for improvement and:
- Improve **effectiveness** and deliver greater value for residents by improving outcomes.
 - Unlock capacity within the business by redesigning processes to be more **efficient**.

The following sections identify some areas for focus, some tactics for delivering improvements and some measures to judge our progress.

6. Commitment 1 – Excellent Services

“We will deliver effective services that residents can access easily and that meet their needs. We will challenge ourselves and our contractors to deliver the best value possible on behalf of our residents.”

- 6.1 Our overall aim should be to deliver good quality, reliable services at a lower than average cost. Our latest satisfaction results have fallen below the London median for both the overall satisfaction and last repair metrics. Whilst there is some evidence to show that this is part of a wider trend in the sector and benchmarking, it is something that the Board has prioritised action on by establishing a Task and Finish Group.

Responsive Repairs

- 6.2 Management costs overall continue to be low in comparison to peers, as is expenditure on running the responsive repairs service, which is by far the most influential driver of resident satisfaction and the area where there is the greatest value to be delivered.
- 6.3 There is a strong argument to invest more in getting the repairs service right – even if this is a temporary investment to deliver process improvements. Failure to deliver reliably on initial service requests exhausts resources elsewhere by generating avoidable phone calls and emails, complaints, disrepair cases, insurance claims, data

disclosure requests and members enquiries from disappointed customers – all of which do not add value.

- 6.4 Contractors are currently under pressure and any adversarial approach to contract management would be risky. However, there are opportunities for system and process improvements that are mutually beneficial.
- 6.5 High quality services and good resident communication must be underpinned by reliable, timely data. Good quality feedback from operatives on the ground, supported by clear reporting, enables staff to know when they need to intervene and communicate with residents. Therefore, we will work in close partnership with partners to improve business processes and obtain real time data about repairs that allows us more control and certainty over resident outcomes.
- 6.6 Some contractors within the sector are approaching clients to seek repricing of contracts. Whilst this is not good news, it does present an opportunity to redefine success criteria and incentive structures. Any potential renegotiation must be conditional on certain standards being met in relation to data and process compliance that enable this more proactive management approach.
- 6.7 In order to ensure to drive changes through we should invest in contract management training and review the KPI framework to ensure that the 'lagging' indicators that allow the Executive Team and Resident Services Committee to hold contractors to account are complimented by 'leading' indicators that focus on delivering the things that make a difference for the resident day-to-day.

Leading – Management	Lagging – Senior Management	Overall Objective - Board
How many appointments were successful this morning?	How many repairs were completed within target this month?	How satisfied are residents with the service?

- 6.8 Meanwhile service standards and selected contractual expectations should be promoted to front-line staff in order to enable them to reinforce them with contractors on a day-to-day basis. Performance standards and data quality will also be scrutinised using internal audit.
- 6.9 We will also consider expanding our list of approved contractors or making use of the [Plentific](#) marketplace of contractors in order to create a mixed economy of contractors , introducing an element of price competition and providing more options for staff to deliver the required outcomes for residents.

Other opportunities

- 6.10 A wider efficiency drive should aim to reduce avoidable contact by maximising the number of self-service transactions and reducing unnecessary processing by introducing automation (see also Commitment 5).
- 6.11 There are now over a thousand registered resident portal users. The latest integration with Wates – due to complete in February 2022 – will offer them the

opportunity to book appointments direct with Wates and will deliver more timely status updates. This makes it a more attractive channel to report issues and check progress and would justify a more assertive approach to channel shift.

- 6.12 The implementation of Rentsense will deliver greater efficiency in the Income Team with automated recommendations expected to lead to improved rent collection rates.
- 6.13 The work of the Resident Services team will continue to 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.
- 6.14 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.

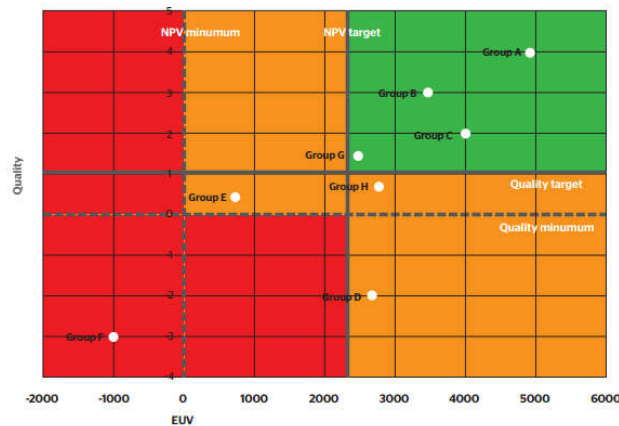
Key aims	Key Measures
Improving resident satisfaction	<p>Sector Scorecard:</p> <p>% satisfied with the service overall</p> <p>Additional Metric:</p> <p>% Satisfied with last repair</p> <p>% Jobs completed first time</p> <p>% self-service requests</p> <p>Number of calls and emails – to demonstrate a reduction of avoidable contact.</p>
Maintaining lower than average cost	<p>Sector Scorecard:</p> <p>Management Cost per unit</p> <p>Maintenance Cost per unit</p>
Improving efficiency indicators	<p>Sector Scorecard:</p> <p>Rent collection</p> <p>Occupancy</p>
Providing added value to customers through community services and Outward.	<p>Additional metrics:</p> <p>£ Social Value generated (HACT Measure)</p> <p>£ invested to £s of support provided (actual)</p> <p>% supported housing residents satisfied</p>

7 Commitment 2 – High Quality Homes

“We will ensure that homes are safe and decent whilst working towards making our overall stock more environmentally and economically efficient.”

- 7.1 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.
- 7.2 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 bids are being made for funding, with resident recharges only being considered as a last resort.
- 7.3 We do not expect planned maintenance to be an area of cost reduction in the medium term, although associated fire warden costs will fall away as the programme of safety works progresses.
- 7.4 The Board is due to consider a new Asset Management Strategy in March and this has a key part to play in value for money. Officers have been working closely with the Development Committee to develop a strategy that seeks to balance the following priorities:
- Building safety and decency standards
 - Resident satisfaction with condition and quality
 - Environmental efficiency
 - Economic performance
- 7.5 As a first step, to ensure assumptions are based on a solid understanding of our portfolio, we have independently validated stock condition information and are undertaking surveys to renew energy performance information.
- 7.6 Analysis is being undertaken on all Newlon owned stock and groups of assets will be appraised using an updated model that weighs Existing Use Value (EUV) and quality indicators such as EPC ratings and satisfaction. As part of this validation process we will stress test all stock based on the following 3 categories:
- EUV based on 30yr planned works to determine red light properties that do not provide £72k or more income over the same period.
 - EUV based on decarbonisation retrofitting to bring properties to RDSAP of D and above.
 - Overview of properties that have low customer satisfaction and exceed the financial maintenance and management costs set.
- 7.7 As a result groups of properties will be classified as red, amber or green – as demonstrated in the diagram below - helping 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, the environment, current and future tenants. This will include setting out our ambitions in relation to decarbonisation.



7.8 This work is being supported by a review of newer developments to better understand how actual life cycle costs compare to original assumptions and to identify patterns of defects or component failure. This will take into account the impact on affordability for residents where there are high building management costs, community energy provision and high levels of insurance losses from leaks between flats. Analysis will be fed back into the Design Brief and used to help make decisions about how to minimise future risks by way of extended warranties or use of insurance.

7.9 Work is being overseen by a Strategic Asset Management Panel working in close partnership with members of the Development Committee.

Key Aims	Measure or source of assurance
Improved efficiency of stock	<p>Sector Scorecard:</p> <p>Return on Capital Employed</p> <p>Ratio of planned to Routine maintenance</p> <p>Additional Metrics:</p> <p>% of EPC certificates C or above</p> <p>Average EUV</p>
Improved Satisfaction	<p>Additional Metrics:</p> <p>% satisfied with property</p> <p>% satisfied with safety</p>
Surplus reinvested in new homes	<p>Sector Scorecard:</p> <p>Reinvestment %</p>

8. Commitment 3 – Growth

“We will deliver a steady supply of new homes that meet the needs of future residents”.

8.1 Maintaining our ability to develop new homes to meet housing demand has to remain central to our Value for Money Strategy. Though the Board has indicated a more cautious appetite in the current climate, the delivery of new homes creates great value for a wide range of 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.
- Generating increased income from a secure rental stream and sales transactions that allow Newlon to pursue its charitable objectives and invest in local communities.

Financial Strength

8.1 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.
- Carefully consider funding options as a Board and maintain our traditionally low borrowing costs.

Joint Ventures

8.2 The Board has decided to invest in commercial development to support the development of social homes. Following the profitable delivery of a first joint venture, the Board has approved a new partnership to deliver 89 new private sale homes.

8.3 A second joint venture will be created to deliver the regeneration of the New Barnsbury Estate and this project will, in turn, finance the refurbishment of Old Bransbury via the land receipt.

8.4 Board sees careful 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.

A Balanced Programme

8.5 We will maintain a mixed programme of social, affordable and shared ownership within a blended programme that balances the large regeneration at Barnsbury Estate and lower risk 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 will continue to facilitate growth plans by providing a vehicle for tax efficient construction.

- 8.6 The Board remains open to mergers and acquisitions if they have the potential to boost development capacity or deliver economies of scale in relation to management and maintenance costs.

Barnsbury Estate

- 8.7 The Barnsbury Estate Transformation is the most challenging project that we have undertaken for at least a decade. There is a strong value for money argument to undertake it now as the alternative would be to invest in the region of £50-60m in existing buildings without generating any new homes, additional income or great improvement in the overall quality of dated accommodation.
- 8.8 There are obviously risks though and the Board will establish an appropriate governance structure to manage these risks and ensure that the project delivers the expected benefits in terms of improved homes, additional income and satisfied residents whilst also managing levels of occupancy on the estate through a phased decant programme.

Aim	Measure
Maintain profitability	Sector Scorecard: Operating Margin
Manageable borrowing	Sector Scorecard: EBITDA MRI Interest Cover Gearing Plus: Weighted Adjusted Cost of Capital low vs sector.
Average of 250 new and/or re-provided homes a year.	Sector Scorecard: Total units developed Units developed as a % of stock.
Surplus from commercial ventures.	Additional Metric: Predicted surplus from joint ventures meets minimum criteria set out in Investment Policy.

9 Commitment 4 – An Efficient and Effective Business

“We are an organisation for the long-term and will ensure there are strong foundations even in uncertain times. We will make careful decisions about our use of resources and, where costs are passed on to residents, work on their behalf to ensure these are good value for money.”

- 9.1 Our overall strategy in terms of reducing central costs is to absorb growth without significant increases in costs.
- 9.2 Each year the Board holds special workshops to consider the budget and review the Corporate Plan for the coming year. Considering these items together and outlining the parameters for stress testing, allows the Board to satisfy themselves that the business is making best use of resources and that plans are viable.
- 9.3 Plans for the coming year are 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.
- 9.4 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 Corporate Plan. Savings will be reported to the Board annually and included in the VFM Report in the Financial Statements.
- 9.5 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.
- 9.6 We know from insight gained from resident feedback 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.
- 9.7 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.

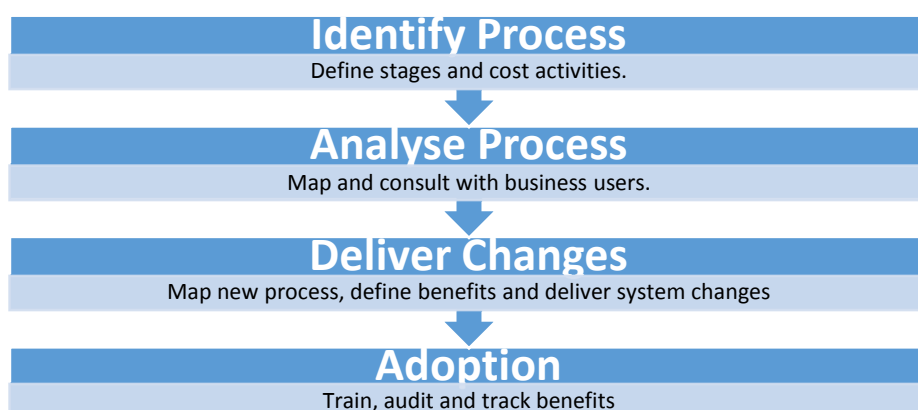
Aims	Measure or source of assurance
Cost and efficiency savings from Procurement.	<p>Sector Scorecard:</p> <p>Service Cost Per Unit</p> <p>Additional metrics:</p> <p>Procurement targets in Corporate Plan</p> <p>Savings reported to Board</p>

Using the budget setting process to control growth in operating costs	Sector Scorecard: Headline Social Housing Cost Management Cost Per Unit
-----------------------------------------------------------------------	--------------------------------------------------------------------------------------

Commitment 5 – A Dynamic Workplace

“We will drive a culture of VFM and 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.”

- 10.1 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.
- 10.2 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..
- 10.3 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.
- 10.4 It is proposed that a Group of managers that was consulted in the review of this strategy will continue to meet regularly as a VFM Working Group with the addition of some representatives from Outward. The group will identify areas where there are potential efficiencies to be made and apply a methodical approach to defining, analysing and redesigning these.



10.5 Specific processes that have been identified as initial areas of focus are:

- Management reporting – where there is potential to further automate data capture and report generation.
- Invoice processing.
- Collation and sharing of building information.
- Management of landlord health and safety certificates.

10.6 Our Digital Strategy will be updated to set out specific steps to support these smarter working that will enable the Board to redeploy resources to improve satisfaction and service outcomes.

Aim	Measure or source of assurance
Deliver savings from process review.	Sector Scorecard: Management Cost Per Unit Additional Metric: Measurable benefits from projects.