

## **Notting Hill Housing Value for Money Strategy – May 2017**

### **1. Introduction**

Notting Hill Housing exists to provide good quality homes for those who could not otherwise afford them. We aim to be London's leading housing association with residents who love where they live and staff who love where they work and what we do.

For us, Value for Money (VFM) is about being effective in how we plan, manage and operate our business. It means making the best use of the resources available to us to provide quality homes appropriate to London's needs and backed by high quality services and support. Value therefore means the number of homes, the appropriateness of those homes to London's needs, the quality of the homes and the quality of the services we provide which in turn lead to improved quality of life for our residents. In order to ensure that we can continue to deliver VFM we must also be aware of risks to the fulfilment of our purpose and manage them.

The VFM strategy is agreed by the Group Board who also monitor performance on VFM in order to gain assurance that the strategy is being delivered. How we approach VFM and the results we achieve will be transparent. Over time our VFM standards will continue to rise.

### **2. Objectives of our VFM Strategy**

Our VFM strategy will help us:

- Develop and refine other strategies which have VFM implications
- Explain our approach to VFM to our residents, staff and stakeholders
- Give impetus to VFM activities
- Deliver VFM in a consistent and effective way

### **3. Elements of the Strategy**

The main elements of the strategy are:

- Set out what outcomes we are seeking to achieve (our corporate strategy)
- Understand the financial requirements of the corporate strategy and how we will deliver them

- Clear processes for deciding on priorities and allocating resources to competing options as well as balancing cost against performance
- Cost effectiveness
- Procurement
- Regular reporting of performance to Board, our residents and stakeholders
- Benchmarking performance
- Risk management
- Embedding VFM in the organisation

Actions to deliver the strategy are embedded in business plans and budgets.

#### **4. Our Corporate Strategy and VFM**

The corporate strategy sets out our purpose and objectives in the context of the operating environment and explains how we will meet them. There are 5 themes to the strategy and VFM is one of the ways we balance them. The themes are:

- Our residents and their homes
- Providing more new homes
- Our people and our work
- Closer partnerships
- Our financial strength

#### **5. Financial requirements of our Corporate Strategy**

Cost effectiveness is particularly important for us. All our businesses and all of the services within them must generate a surplus, which is invested in building more homes for people who need them and helping to make our homes affordable. In the current economic environment, with decreasing grant funding, reducing rents, and changes to welfare benefits, the emphasis on cost-efficiency is heightened.

The 2015 summer budget introduced some new challenges. The largest was the 1% reduction in rent where we had been planning for increases over inflation. The impact of this was to reduce our expected rental income by £20m over the following four years. Our corporate strategy gives the flexibility we need to respond and we chose continuity rather than a sudden change of direction which would lead to wholesale job cuts or an end to low cost housing.

Rather than initiating a central cost cutting exercise, we used the existing process of rolling 5 year business plans for each business area to develop a sustainable and proportionate response which has resulted in planned efficiency improvements in each business area of 4% in 2016/17 and 3.5% in the following four years, a cumulative total of 17%. We have since extended the 3.5% saving for a further year taking in 2021/22.

These plans are drawn up by staff in the businesses and approved by the Executive Board. They contain outcomes against the five themes of the corporate strategy and measurements of success. The businesses are set continuous improvement financial targets which they must achieve while delivering the non financial aspects of their plan. The efficiency improvements are expressed in terms of cost per unit or margin

for businesses whose success is based on turnover rather than number of homes. It was this already existing tool which we used to respond to the reduced rents. It will also help us respond to any future changes.

The financial plan for each business is used as the starting point in developing the budget each year and management accounts monitor performance against budget and specifically against the efficiency target.

The 5 year plans are also used to build up the first years of the 30 year plan and the need to source additional funds to finance growth is also assessed from the plans.

## **6. How do we deal with competing priorities?**

We are continually making choices about how to best achieve our purpose by maximising and then spending the income we receive and whether to hold, dispose of or grow the assets we hold. We have several strategies, policies and processes which help us decide how to make best use of this income and assets in order to fulfil our purpose, the most significant of which are agreed and monitored by the Group Board.

### **6.1 Asset Management Strategy**

The Asset Management Strategy is a key part of VFM as it describes how we spend money to maintain the useful life and quality of our housing assets. It defines a Notting Hill Standard for our customers' homes and sets targets for affordable warmth.

### **6.2 Active Asset Management Strategy**

Active asset management means considering redevelopment, disposal, enhancement and change of use against every home in the portfolio in order to ensure that the best use is being made of our assets. This 5 year strategy describes how we make these decisions. The process begins by evaluating every void home. One of the outcomes of the strategy is to increase the number of homes we own and over the next two years we plan to deliver a further 200 largely family sized homes in London.

### **6.3 Growth**

The Development Strategy describes the level and mix of growth which will be delivered by development and how this will be achieved, including the procurement of land and construction services. Projects are prioritised using a matrix with a scoring mechanism and must meet specific project appraisal hurdles. Governance is provided by the Group Board and its Development Committee.

We will also grow by the acquisition of property portfolios and through strategic partnerships, mergers and acquisitions

### **6.4 Customer and Digital Strategy**

Our Workwise programme will improve and refine how we deliver services to our residents and make colleagues' jobs easier. It will simplify, standardise and automate some of our key business processes making these available to staff and customers on-line, improving on our popular Altogether Better (A2B) model.

## **6.5 Altogether Better**

Our Altogether Better model for delivering housing services helps housing officers to identify customer needs. Fostering a sense of active partnership with residents can help us reduce our maintenance expenditure. Housing officers have some discretion over budgets and are well placed to change priorities or allocation of resources in order to achieve VFM. We have added our new product, SimpliCity to our housing offer. Under this we let homes on the open market to working households at sub market rents and with long tenancies

## **6.6 Geographic focus**

Our decision to focus on London as our geographic base means that we can develop strong relationships with boroughs and other stakeholders. This enables us to adapt services or growth where and in the way required to meet local needs in the most cost effective way.

## **6.7 Treasury Policy**

Funding is essential to the achievement of our strategy and interest costs are one of the main items of expenditure. The Treasury Strategy determines how we will obtain and manage the necessary funds to support the corporate strategy while taking into account risk and the cost of funds.

## **6.8 Governance**

The group Board and its committees are asked to make decisions on any significant issues which involve prioritisation in the use of resources.

# **7. Cost Effectiveness and Procurement**

## **7.1 Cost reduction**

Cost reduction is a key element in the VFM strategy. Every inefficiency is a home not built. A saving of £100,000 would enable us to borrow sufficient funds, supplemented in some cases by grant, to build a home.

Responsibility for achieving cost reduction lies within each business. However, the recently established Workwise Transformation team will support them by helping find process cost reductions, mainly by investing in process improvement and ICT to digitise and streamline services.

Staff effectiveness will also be improved by better management and personal development, by ensuring that personal objectives are in line with the corporate strategy and by streamlining processes.

Maintenance costs will be addressed by working with suppliers who share our VFM aims and are able to help us deliver them and by more effective contract management.

## **7.2 Cost control**

There are several strands to our internal controls of which the Financial Regulations are the most important. They describe how income and costs are controlled. There is an electronic purchase order processing system which is widely used across the Group and we will extend its coverage and effectiveness. Income and expenditure is

regularly reviewed by managers. Management accounts are reviewed by the Executive Board monthly and by Group Board quarterly.

### **7.3 Decision making**

We use a business case approach to making significant decisions. This is particularly helpful in situations where money can be spent to achieve an outcome which is not easily quantified financially, such as customer wellbeing.

### **7.4 Procurement and Procurement Strategy**

The Procurement Strategy explains how we buy goods and services and manage contracts with suppliers. Procurement has in the past been carried out within the businesses. A small central procurement team has been set up in order to improve procurement processes, to bring and share best practice in procurement and to help the businesses deliver specific savings on purchased goods and services. This team will play an increasing role in procurement going forward and procurement budgets will be centralised.

### **7.5 Partnership working and mergers**

We will actively consider alternative models of service delivery, such as working in partnership with suppliers or other providers of our services. Joint ventures or partnerships will be used to enable development with other partners. Where appropriate, these will be ring-fenced to protect core businesses from significant financial risks. We will approach other like minded housing associations to discuss formal partnerships or merger.

### **7.6 Internal Audit**

Regular internal audits by an external practice review assurance of controls and report to the Audit Committee of the Group Board.

### **7.7 Volunteering and charitable fundraising**

We actively encourage and facilitate volunteers to help with the delivery of our services, particularly those which are not core to our housing management. We also raise charitable donations both at a Group level and locally in order to support those most in need and seek grant funding to support specific projects. There is a cost to these activities and we ensure that they themselves provide VFM.

### **7.8 Pay, reward and staff motivation**

Recruiting and retaining quality staff, who will go the extra mile to deliver better outcomes for our customers, is at the heart of our pay and reward strategy. We pay at market median salary levels and review our pay and benefits package every three years to ensure we remain competitive in the markets in which we operate.

Hand in hand with this goes intrinsic rewards we can offer our staff such as ensuring they have meaningful and interesting jobs to do, that they are challenged to do more where appropriate, they are supported and coached by their managers to achieve their very best and that they have some control over how they deliver their work.

We continue to seek ways to reduce staff costs by using tools such as salary sacrifice, by automating and reducing transactional work thus allowing staff to focus on the tasks where they add most value and by reviewing our approach to reward to encourage staff to save money in their day to day work.

### **7.9 Accommodation Strategy**

We will seek to make better use of our offices by using methods such as more flexible working and hot-desking. For example a trial of Activity Based Working has been carried out in the new office environment at our Hammersmith office. Under this staff have more choice and flexibility in how and where they work supporting both customer service and efficiency.

## **8. Reporting VFM, transparency and scrutiny**

An annual Self assessment is produced each year and included in the Financial Statements. The statement includes:

- The strategic approach to VFM
- Governance of VFM
- How we ensure delivery
- Achievements over the past year
- Plans for the next year

The self assessment is the primary means of reporting VFM. It will be supplemented by additional reports to Board to make VFM transparent and open to scrutiny. These will include reports of progress against achievement of cost reduction targets.

Management accounts are produced monthly and reviewed by the Executive Board. They are also reviewed by the Group board quarterly. Performance indicators are produced monthly and reviewed by the Executive Board. They are also reviewed quarterly by the Group Board. Annual standards reports and annual accounts are published and made available to stakeholders.

There is a Resident VFM Group which meets quarterly.

We will also improve tenant and leaseholder scrutiny of service charges which can give cause for a lot of dissatisfaction.

## **9. Benchmarking performance**

We benchmark performance against peers in order to assess performance on VFM relative to others. We are members of Housemark and take part in their annual benchmarking exercise. The HCA have given some useful contextual information to back up their suggested Cost Per Unit measures and we will use this to help understand our performance relative to others. In particular, it is useful to understand the impact on overall social housing cost per unit of our strategic decisions to offer temporary accommodation and supported housing, as well as focusing on homes in London which is an expensive place to operate.

We will support this focus on cost per unit by other benchmarking activities. We have joined the Sector Scorecard group which initially uses 15 proposed indicators to benchmark. We will particularly focus on using these measures to set targets and track our own performance over time. This will include understanding the relative cost performance of front office and back office functions.

We will also find other ways to benchmark our VFM, using benchmarking groups or directly with other organisations. This will help improve VFM in the other businesses where benchmarking is not as advanced as Housemark.

## 10. Risk management

We use a risk map for individual businesses and the Group as a whole to monitor risks and financial risks feature within this. Risks are monitored by the Audit Committee and the Group Board.

## 11. Embedding VFM

The business planning and performance management processes help ensure that VFM is joined up throughout the organisation. The individual plans draw out all of the VFM implications for that part of NHH. VFM is explained to all staff and will feature in communications and employee objectives. Greater understanding of VFM will improve staff satisfaction as it will help our people see that it is not just about cost cutting and will give them more focus on delivering better outcomes.

A culture of VFM will be engendered by managers throughout the Group by raising consciousness and awareness. This will ensure that behaviours and decisions are in line with VFM from switching lights off when leaving a room to procuring large contracts. Business plans will explain how this is to happen in each area.

A staff Cost Effectiveness group has been set up to challenge expenditure and nurture a culture of cost effectiveness at all levels of the organisation.

## Appendix 1 Corporate Strategy wheel

