

Railway Housing  
Association

Value for Money  
Self-Assessment  
2016/17

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## **Value for Money (VFM) Self-Assessment 2016/17**

### **1. Executive Summary**

1.1 In accordance with the requirements of the VFM standard we have prepared a self-assessment against the standard. The self-assessment considers the following key areas:

- An understanding of the return on our assets
- Comparative costs of service delivery
- Our approach to securing VFM and VFM gains actually achieved.

### **1.2 Key strategic aims**

1.2.1 The association's mission is 'to provide homes for today and tomorrow', and our VFM strategic goal is 'we will improve value for money throughout the organisation'. Through VFM we seek to ensure that resources are directed towards our key priorities and objectives, that there is a balance between costs and performance, i.e. successful outcomes are achieved for the right price, and that we maintain high levels of customer satisfaction. There may be circumstances where a higher cost may be acceptable or appropriate or a lower cost may result in a poorer service and therefore may not be desirable.

1.2.2 The association has a VFM strategy that is updated annually and sets out to achieve the business strategy by:

- Continuing to improve our understanding of our current VFM position
- Promoting and embedding a VFM culture
- Achieving year on year efficiency savings of 5% of operating costs (a target of £185,574 for 2016/17)
- Continuing to agree with customers how VFM gains are used
- Optimising the future returns on assets
- Targeting resources towards frontline services
- Maintaining a high level of customer satisfaction with VFM
- Achieving top quartile performance in recognised VFM indices.

### **1.3 Key achievements**

1.3.1 During 2016/17 we made further progress in delivering the VFM strategy, with the following key achievements:

- The recommendations from the lettings and voids review that were implemented in previous years led to significant improvements in performance, with the average re-let time improving from 34.8 days to 27.2 days, and void losses reducing by more than £27,900
- The target for VFM savings of 5% of operating costs net of depreciation was exceeded, with £304,931 (9.1%) saved during 2016/17
- 132 properties benefited from new boilers or other works which helped improve their energy efficiency and resulted in cost savings for residents

1.3.2 We also completed actions that we said we would in the VFM self-assessment for 2015/16:

- All staff had at least one VFM related objective agreed at the time of their appraisal

- Actions from service reviews in previous years were progressed and many were completed
- Another options appraisal was carried out on a scheme with a relatively low net present value, to identify any actions which could be taken to improve its performance
- A review of procurement was carried out with the assistance of an external consultant to ensure that procurement activities are effective and efficient and comply with all relevant legislation and good practice
- A five year programme of service reviews has been developed to identify where VFM can be improved and to establish and develop the VFM culture within the association
- Consideration was given to establishing a service review framework and it was concluded that external support was required to bring proven methodologies and a structured, objective approach, in addition to insight of the sector and good practice, and helping with the people aspect of change.

## **1.4 Assets**

- 1.4.1 We recognise that the value of our housing assets is significantly more than our current borrowing and we have plans in place to use these assets more efficiently and effectively to meet housing need.
- 1.4.2 The association's development policy aims to develop at least 15 units per annum. During 2016/17 work commenced on a development which will provide 73 new homes in 2018.
- 1.4.3 The net present value (NPV) calculation was updated for all properties in 2016/17 and this confirmed that all properties generate a positive return with the exception of one scheme of 31 units. There is a wide range of results, with an average value of £15,205, the lowest value being -£4,119 and the highest £44,168. This is a significant movement from the previous results and is directly attributable to the rent reduction regime which was introduced in April 2016. The schemes with the lowest performance in a combined NPV and stock viability assessment have been subjected to options appraisals since the introduction of the assessment, to consider how we can improve their performance. An options appraisal was undertaken for the scheme with a negative NPV in 2015/16 and this resulted in plans to add additional units to the scheme to improve its performance in the longer term. Further schemes will be subject to options appraisals during the coming year.

## **1.5 Gains**

- 1.5.1 During the year cashable gains were achieved as a result of a range of procurement activity and process reviews. The most significant savings are outlined below:
- Procurement of planned maintenance programme £125,994
  - Mini planned maintenance programme £2,832
- 1.5.2 The projects above combined with projects that completed in previous years and achieved savings in 2016/17 of £174,744 resulted in total cashable savings of £301,552 for 2016/17. In addition to this, the association achieved non-cashable efficiency savings during the year of £3,379 bringing the total to £304,931 (9.1% of operating costs against a target of 5%).

## 1.6 Efficiency

- 1.6.1 Operating margin is used as a measure of the efficiency of the organisation. This is our surplus of turnover after deducting operating costs, expressed as a percentage of turnover. An operating margin of 19.3% was achieved in 2016/17 which is an improvement on the previous year (17.6%) and is close to achieving our short term aim of 20%. It should be noted that if impairment is excluded from operating costs the operating margin would have been 26.2%, demonstrating real progress in improving efficiency. We plan to improve our performance in relation to the operating margin over the term of the financial forecast to achieve 26% per annum consistently.

## 1.7 Benchmarking

- 1.7.1 Performance has been compared against our peers through Housemark core benchmarking and the Homes and Communities Agency's global accounts. We have compared key financial, maintenance, housing management and satisfaction indicators with similar organisations and with our results for previous years. The results are mixed, with top quartile results in relation to arrears, key resident satisfaction indicators, overheads and debt, and poorer performance in relation to repairs and maintenance costs and operating margin. We have set targets for improvement, including for our operating margin and repairs costs.
- 1.7.2 Some of our key benchmarking results, and the relevant quartile when compared with our selection of similar providers for 2015/16, are set out below:

Indicator	2014/15	2015/16	2016/17	2015/16 Quartile
Overall satisfaction with service <sup>1</sup>	90.9%	90.9%	90.9%	★
Satisfaction with quality of home <sup>1</sup>	89.9%	89.9%	89.9%	🏠
Satisfaction that rent represents value for money <sup>1</sup>	93.1%	93.1%	93.1%	★
Satisfaction with repairs & maintenance service <sup>1</sup>	87.8%	87.8%	87.8%	★
Housing management cost per property <sup>2</sup>	£635.06	£567.21	£578.78	○
Current tenant arrears as % rent due	1.76%	2.06%	1.95%	★
Cost per property of major & cyclical works <sup>2</sup>	£1479	£1309	not yet available	📊
Cost per property of void works and responsive repairs <sup>2</sup>	£812	£852	£867	●
Percentage of properties that are non-decent	0.0%	0.0%	0.0%	★
Debt per unit	£7983.6	£7704.9	£8293	★
Overheads as a percentage of turnover	14.2%	13.7%	13.6%	★
Operating margin	19.7%	17.6%	19.3%	●

Quartile key:

Upper quartile ★ Middle upper 🏠 Median ○ Middle lower 📊 Lower quartile ●

<sup>1</sup> Residents are surveyed triennially using Housemark's STAR framework.

<sup>2</sup> Where a result is provided for 2016/17 this is the 2015/16 result uplifted for inflation. This is due to the benchmarking results for cost data for 2016/17 not being available when the annual accounts were approved. The results for 2016/17 are provided in the full self-assessment report.

- 1.7.3 Actions have already been completed to improve the performance of those indicators above that are currently lower quartile, and these have had an impact on performance in 2016/17 and will continue to have a positive impact in future years:
- Cost per property of void works and responsive repairs is shown to be in the lower quartile. Action has been taken to address this, predominantly through the adoption of a schedule of rates.
  - Operating margin is currently in the lower quartile. However the budget for 2017/18 indicates a margin of 22.3% and over the term of the ten year financial forecast further improvement is anticipated to achieve a margin of 25.8%.
- 1.7.4 All satisfaction indicators are currently in the upper quartile or middle upper quartile which we believe is acceptable. Whilst satisfaction levels are important we do not believe that expenditure on further service improvement to achieve even higher levels of satisfaction would be warranted at this time.
- 1.7.5 The HCA has used the 2016 Global Accounts data to produce unit cost data for each registered provider. The results for RHA show below average total costs, low management and other costs, and higher service charge and maintenance costs. The high service charge cost per unit is due to the association's high proportion of housing for older people. We are aware of the association's high maintenance costs and have been working to improve performance in this area by introducing a schedule of rates to reduce costs and improve the information that we have on these repairs. We expect that the maintenance cost per unit will improve in 2017.
- 1.7.6 The association has agreed to take part in a pilot of the Sector Scorecard for 2016/17, which is a set of 15 key indicators that has been proposed to benchmark the efficiency of the sector. The Sector Scorecard will be launched in 2018 following the pilot, and it is anticipated that some of these indicators will be selected by the HCA for use as metrics in a new VFM standard that will be subject to consultation in the next few months.

## **1.8 Future aspirations**

- 1.8.1 Our business strategy for 2017-22 again includes a specific objective relating to VFM and a number of key commitments to achieve it that are set out at paragraph 1.2.2 above.
- 1.8.2 Targets have been set in relation to efficiency gains and operating margin that have been embedded in the budget setting, budget management and performance management processes. It is intended that these targets will continue to be achieved despite rents reducing by 1% per annum for 4 years.

## **1.9 Standard compliance**

- 1.9.1 The board continues to be committed to embedding VFM in the culture and decision-making processes of the association and thereby meeting the expectations of the standard.
- 1.9.2 We believe that the activities outlined above indicate compliance with the requirements of the VFM standard, while acknowledging that there is further work to be done.
- 1.9.3 The full VFM self-assessment for Railway Housing Association is available at [www.railwayha.co.uk/about/publications/category/corporate-5/](http://www.railwayha.co.uk/about/publications/category/corporate-5/).

## **2. Introduction**

### **2.1 Background to the self-assessment**

- 2.1.1 This VFM self-assessment is intended to provide a statement for our residents, board members, staff and all other stakeholders to demonstrate the progress we have made towards achieving value for money within Railway Housing Association (RHA).
- 2.1.2 Value for money is the relationship between economy, efficiency and effectiveness. Economy is the price paid for what goes in to providing a service, efficiency is how much you get out in relation to how much you put in, and effectiveness is the impact achieved. In the case of a service the impact relates to the customer experience and the outcomes for customers which can be measured in part by satisfaction levels.
- 2.1.3 VFM is high when there is a balance between all three and that is what RHA strives to achieve. In order to maximise VFM the needs of customers must be met by doing the right thing, in the right place, at the right time and at the right price.
- 2.1.4 Through VFM we seek to ensure that resources are directed towards our key priorities and objectives, that there is a balance between costs and performance and that we maintain high levels of customer satisfaction.

### **2.2 VFM aims and objectives**

- 2.2.1 Our VFM goal is set down in our business strategy as 'we will improve value for money throughout the organisation'. RHA recognises that VFM is a fundamental consideration for all housing associations and is committed to maximising VFM to ensure the highest level of service is delivered to our customers.
- 2.2.2 RHA first established a formal VFM strategy in April 2011 and it has since been reviewed on an annual basis. The strategy includes a VFM action plan that sets out the key tasks that are required to achieve the objectives of the strategy.
- 2.2.3 The strategy sets out to achieve the business strategy by:
- Continuing to improve our understanding of our current VFM position
  - Promoting and embedding a VFM culture
  - Achieving year on year efficiency savings
  - Continuing to agree with customers how VFM gains are used
  - Optimising the future returns on assets
  - Targeting resources towards frontline services
  - Maintaining a high level of customer satisfaction with VFM
  - Achieving top quartile performance in recognised VFM indices.
- 2.2.4 The VFM strategy outlines the drivers for VFM, the association's current position and VFM objectives as follows:
- Deliver the business strategy and achieve year on year efficiency gains of 5% of operating costs (£185,574 in 2016/17)
  - Achieve top quartile performance in comparison to similar housing associations in recognised sector indices
  - Target resources to frontline services, to meet the needs of our customers
  - Embed a VFM culture throughout the organisation, and

- Maintain customer satisfaction levels.

### **3. How we manage and monitor VFM**

#### **3.1 Business strategy**

- 3.1.1 VFM has a specific organisational goal and is a central theme to the business strategy. RHA's mission is 'providing homes for today and tomorrow'.
- 3.1.2 The business strategy for 2017-22 also includes a number of commitments in relation to VFM and these are set out in paragraph 2.2.3 above.
- 3.1.3 Our business strategy covers a five year period and is reviewed by the Board on an annual basis, with a major review every five years. A major review was carried out during 2015/16 and further reinforced the importance of VFM to the association.
- 3.1.4 Our strategic goals have been developed as a means of achieving our vision of 'providing homes for today and tomorrow'. The strategic goals are focused on continuing to improve the service to our residents, ensuring that there are increasing opportunities for involvement and maintaining high levels of customer satisfaction. The goals also focus on ensuring that our major assets i.e. our properties are well maintained and fit for purpose to meet future requirements of residents, which should ensure that demand remains high and those assets perform well into the future. Value for money is central to the achievement of our strategy.

#### **3.2 Budgets and financial management**

- 3.2.1 The Board considers and approves the budget on an annual basis. The budget is constructed using the previous year as a base, with bids and substantial evidence required from budget holders for new items or increases above inflation. The evidence must demonstrate how the bid will contribute towards the association's strategic goals, service improvement and VFM. This process ensures that resources are appropriately directed to meet strategic aims. Benchmarking data is also considered by the Board in relation to each budget bid so that the current VFM performance and the potential impact on that performance are understood.
- 3.2.2 The Board also approves the ten year financial forecast on a rolling annual basis, and when any changes in the external environment may impact on the forecast, to ensure that sufficient resources are available to meet spending requirements and covenants will continue to be complied with in the medium term. For the longer term a 30 year financial plan is in place to ensure the long term viability of the association particularly in terms of future planned maintenance requirements.
- 3.2.3 The Board reviews management accounts on a quarterly basis following monthly budget management reviews by the senior management team. The Board receives a quarterly balanced scorecard which includes VFM indicators, performance against the savings target and financial data, in addition to other key performance indicators to enable the Board to review progress towards achieving the business strategy, including the VFM strategic goal.

#### **3.3 Scrutiny and review**

- 3.3.1 A VFM steering group has been established whose responsibilities include:

- The annual review and update of the VFM strategy for recommendation to the senior management team (SMT) and the Board
- Agreement of a programme of service reviews for recommendation to SMT
- Agreement of the VFM action plan for recommendation to SMT and the Board and monitoring of progress against the action plan
- Monitoring of VFM reviews and outcomes
- The annual review of the VFM self-assessment for recommendation to SMT and the Board
- Agreement of the VFM efficiency savings target annually for recommendation to SMT and the Board and monitoring of the achievement of the efficiency savings target
- Monitoring of the VFM project register
- Review of the annual Housemark benchmarking report and identification of areas for improvement and further analysis
- The agreement of VFM performance indicator targets annually for recommendation to SMT and the Board and monitoring of performance against approved targets
- The annual review and update of the procurement strategy for recommendation to SMT and the Board and review of business cases for changes to procurement arrangements.

3.3.2 The group is made up of staff at all levels of the organisation and has representation from residents and a Board member. This wide representation helps to ensure that VFM is embedded throughout the organisation. The steering group is key to the delivery of the VFM strategy.

3.3.3 A resident scrutiny panel has been in place since 2011. The scrutiny panel has since its establishment selected a number of service areas for review and has in particular been involved in a VFM review of the repairs and maintenance service. The panel considers matters from the perspective of the residents and has been helpful in providing VFM guidance and making suggestions on service changes leading to improved service or reduced costs. A member of the scrutiny panel sits as the resident representative on the VFM steering group.

3.3.4 Resident focus groups are well established and are the principal means of consultation with residents on service changes and improvements, and also on the budgeting process. Following consideration of the annual budget by the Board, the resident focus groups are consulted on the budget proposals and their views fed back to the Board prior to the budget being finalised. VFM is a standard agenda item for focus groups as we are keen to obtain residents ideas, suggestions and feedback with regard to VFM.

### **3.4 Benchmarking**

3.4.1 The association engages in regular benchmarking activities with its peers. The principal benchmarking mechanism is Housemark and paragraph 4.4.7 of this document provides comparisons drawn from the most recent Housemark core benchmarking report.

3.4.2 A further means of benchmarking is through the HCA Global Accounts using unit cost data compared to the sector as a whole, and the results of this comparison are provided in paragraph 4.4.9 below.

3.4.3 In addition, the association has agreed to take part in a pilot of the Sector Scorecard for 2016/17, which is a set of 15 key indicators that has been proposed to benchmark the efficiency of the sector. The Sector Scorecard will be launched in 2018 following the pilot, and it is anticipated that some of these indicators will

be selected by the HCA for use as metrics in a new VFM standard that will be subject to consultation in the next few months.

### **3.5 Procurement strategy**

3.5.1 The purpose of the procurement strategy is to communicate a clear framework for the procurement of all goods, works and services that will support the delivery of the association's business strategy. The procurement strategy encompasses the value for money requirements set out in the association's VFM strategy and has full regard for the approved financial regulations and standing orders.

3.5.2 The objectives of this procurement strategy are as follows:

- Achieve value for money in the provision of goods, works and services
- Ensure resident involvement in the procurement process for the works and services that most affect them
- Increase efficiency and lower transaction costs through the use of modern procurement methods and new technology
- Ensure staff have sufficient skills and training to be able to undertake procurement effectively.

3.5.3 The strategy is intended to influence the direction that employees take in the procurement and purchasing of all goods and services, to ensure that VFM is maintained and enhanced, and the VFM strategic goal is achieved.

### **3.6 Service reviews and action plans**

3.6.1 Further progress has been made in implementing the recommendations from the VFM reviews carried out in previous years, with all of the actions relating to the day to day repairs service now completed. The remaining recommendations from the procurement review have been superseded by the recommendations of the 2016/17 procurement review, which are currently being developed into an action plan.

3.6.2 The recommendations from the wider review of the housing and asset management functions carried out in 2013/14 have almost all been implemented with only 3 actions remaining that are scheduled for completion in 2017/18.

## **4. How we are performing in relation to VFM**

### **4.1 Assets**

4.1.1 The association introduced a net present value (NPV) review of all housing properties in 2013 which assessed the performance of each scheme and individual property. The model is updated biennially with current plans and recent performance, and the latest update in 2016/17 resulted in a reduced average value of £15,205 with the lowest value being -£4,119 and the highest £44,168. This change is directly as a result of the rent reduction of 1% per year from April 2016 which has had a negative impact on future income generated from our assets.

4.1.2 We continue to use a combination of the NPV results with our stock viability assessment to monitor overall performance of our stock and to establish which schemes should be subject to an options appraisal to consider how performance can be improved.

- 4.1.3 The association's properties are spread over a relatively wide geographical area, with only a small number of units in some remote locations. This combined assessment enables the performance of the association's assets and resources to be better understood and options for improving performance to be considered.
- 4.1.4 The results of the review confirm that all schemes except one generate a positive return although there is a wide range of results. Options appraisals continue to be undertaken for those schemes with the poorest performance.
- 4.1.5 The most poorly performing scheme was the subject of an options appraisal presented to the board in December 2015, which considered the reasons for the scheme attracting a low score within the combined assessment and how they might be addressed. At that time the board decided that further investigations should be carried out to establish if further development of the site would be feasible to increase the number of units, and requested a valuation in relation to disposal to another provider. Subsequently the board agreed that the preferred option for the scheme was to increase the number of units on the site. Planning approval for this is being sought with a view to seeking funding from the HCA under the continuous market engagement process.
- 4.1.6 We invested significantly in our assets during the year including works to improve the energy efficiency of our homes. Energy efficient gas boilers were installed in 121 individual properties replacing older outdated boilers. Evidence suggests that these will achieve savings in energy bills for residents in the region of £350 per annum.
- 4.1.7 External wall insulation was provided at 11 properties, the programme being limited due to the unavailability of grant funding. We believe that the works programmes outlined above demonstrate that the association has allocated resources in an efficient way and focused resources where they will have the most sustainable impact.
- 4.1.8 During the year there were no new homes completed, however work commenced on site for a total of 73 units that will be completed in May 2018. These will be financed by a combination of loan funding from Affordable Housing Finance that has been taken at a historically low effective rate of 2.919%, and grant.
- 4.1.9 The way in which we procure maintenance works was changed in January 2016 when a schedule of rates system was put in place. This has enabled us to have a much clearer picture of the detail of maintenance expenditure and to negotiate beneficial rates with contractors. It has also enabled the number of contractors to be reduced resulting in savings on staff time involved in the administration of contracts and the payment of invoices. In 2016/17 the average cost of a repair reduced to £100.82 from £111.02 in 2015/16, and an underspend was achieved against the budget despite a 9% increase in the number of repairs completed.
- 4.1.10 A process to review the future of each property which has been assessed as being a high cost void was introduced in 2015/16, involving carrying out what is effectively a mini options appraisal to establish whether any action other than repairing and re-letting would produce a better return. We have continued this process in 2016/17 where it has been practical to do so, being mindful of the association's core objective – the provision of housing to those in need – with demand being the principal driver in these decisions.

## 4.2 VFM improvements and gains

- 4.2.1 VFM improvements or gains occur when reduced costs achieve the same level of service or outputs, or additional outputs are achieved for the same cost, or a proportionately greater increase in outputs is achieved for a lower increase in cost.
- 4.2.2 During the year cashable gains were achieved through a range of procurement activity and process reviews. The more significant savings are outlined below:
- Procurement of planned maintenance programme £125,994
  - Mini planned maintenance programme £2,832
- 4.2.3 The projects above combined with projects that completed in previous years and achieved savings in 2016/17 of £174,744 resulted in total cashable savings of £301,552 for 2016/17. In addition to this, the association achieved non-cashable efficiency savings during the year of £3,379 bringing the total to £304,931 (9.1% of operating costs against a target of 5%).
- 4.2.4 During the year actions were also taken that had a positive impact on service delivery and the resident experience, in accordance with actions planned within the business strategy, for example steps were taken to improve the energy efficiency of properties which resulted in cost savings to residents (see 4.1.6 and 4.1.7 above).
- 4.2.5 The VFM self-assessment for 2015/16 made reference to actions within the VFM action plan which were proposed for the year 2016/17. The table below summarises the progress in completing those actions and their anticipated or actual outcomes:

Action	Target date	Outcome	Progress
Complete a VFM self-assessment annually	Jun 2016	Compliance with HCA standard and demonstrates progress made on VFM journey	Completed and approved by the board in June 2016
Identify at least one VFM related objective for all members of staff annually	Jun 2016	Supports the process of embedding VFM throughout the association and should result in additional VFM savings	Completed, all staff now have at least one VFM objective on an annual basis
Continue to complete options appraisals for the schemes with the lowest net present values	Mar 2017	Ensures that schemes with lower values are subject to scrutiny and that action can be taken to improve their values	An options appraisal was carried out and reported to the board early in May 2017, and work continued on the preferred option arising from an earlier options appraisal on the scheme with the lowest NPV

<b>Action</b>	<b>Target date</b>	<b>Outcome</b>	<b>Progress</b>
Continue to implement the action plans resulting from the VFM reviews of day to day repairs, procurement, voids/lettings, and housing management and asset management services	Mar 2017	More effective and efficient services	A number of recommendations were implemented during the year and there are now only 3 remaining that are planned to be implemented in the 2017/18 financial year
Carry out a procurement review	Mar 2017	Ensure that procurement arrangements are effective and comply with all relevant legislation and good practice	Completed and the recommendations of the review are being implemented
Develop a five-year programme of VFM service reviews covering all areas of the organisation	Mar 2017	Ensure that all services are subject to scrutiny regularly and that agreed actions have been successfully implemented	Services have been prioritised according to the position of key performance indicators for cost and quality compared to the association's selected VFM peer group, and when they were last reviewed
Determine VFM targets for all service areas for inclusion in the performance management process	Feb 2017	The performance of every service is understood and measured and reported regularly	All service areas now have VFM targets and each service review will consider the suitability of current targets going forward
Consider establishing a service review framework	Mar 2017	The preferred approach to service reviews is identified and adopted to ensure the process is effective	It was concluded that external support was required to bring proven methodologies and a structured, objective approach, in addition to insight of the sector and good practice, and helping with the people aspect of change

4.2.6 The VFM improvements and achievements identified above contribute to the achievement of our VFM objectives and the table below identifies how:

<b>Achievement</b>	<b>Linked objective</b>	<b>Impact</b>
Efficiency savings of £304,931 which equates to 9.1% of operating costs for 2016/17	Deliver the business strategy and achieve year on year efficiency gains of 5% of operating costs	Resultant savings can be redirected in accordance with resident wishes
Housemark results show top or middle upper quartile performance for 12 out of 20 key performance indicators	Achieve top quartile performance in comparison to similar housing associations in recognised sector indices	Demonstrates high customer satisfaction levels and improvements in some areas, with targets in place to drive further improvement
All staff have at least one VFM objective	Embed a VFM culture throughout the organisation	Ensures that staff continue to seek to improve VFM throughout the organisation
Implementation of the recommendations from service reviews and agreement of VFM targets	Target resources to frontline services, to meet the needs of our customers	Service improvements for example reduced relet times, savings in procurement and continued customer satisfaction with services
STAR survey shows consistently high satisfaction levels	Maintain customer satisfaction levels	Efficiency savings have not impacted on the quality of service delivery

### **4.3 Service level analysis**

- 4.3.1 We continue to develop service level assessments to provide a much more detailed analysis of how individual service areas are performing, to enable us to identify more readily those areas where we perform well and accurately target the areas where improvement is required.
- 4.3.2 Through the net present value review and stock viability assessment we can already identify individual unit and scheme performance as stated elsewhere in this report, and this data has been used to identify the schemes and properties that are performing less well than others and carry out options appraisals to consider what the most appropriate course of action is.
- 4.3.3 Performance data is collected at a local level based on housing management localities and this has enabled us to identify areas of concern on a geographical basis, for example if there are inconsistent trends in rent arrears levels, property turnover or void periods. This enables us to ensure that resources are appropriately targeted in the future.

### **4.4 Efficiency and effectiveness**

- 4.4.1 In assessing our journey towards maximising VFM we need to consider how efficiently we deliver our services to residents. We can use a number of methods of assessing how efficient we are, by measuring our own performance year on year to establish the overall trend and by comparing ourselves with other similar organisations.
- 4.4.2 An important measure of performance in terms of overall efficiency is our operating margin. This is our surplus of turnover after deducting operating costs,

expressed as a percentage of our turnover. The higher the percentage then the more efficient we are. This can be considered in a year on year comparison which gives the following results:

**Table 1 operating margin**

	<b>2016/17</b>	<b>2015/16</b>	<b>2014/15 restated</b>	<b>2013/14</b>
Turnover	7,010,298	6,976,043	6,698,388	6,115,775
Operating costs	5,657,918	5,746,537	5,373,754	5,040,974
Operating Surplus	1,352,380	1,229,506	1,324,634	1,075,801
Operating margin	19.3%	17.6%	19.8%	17.6%

- 4.4.3 An operating margin of 19.3% was achieved in 2016/17 which is an improvement on the previous year (17.6%) and is close to achieving our medium term aim of 20%. It should be noted that if impairment is excluded from operating costs the operating margin would have been 26.2%, demonstrating real progress in improving efficiency. We plan to improve our performance in relation to the operating margin over the term of the financial forecast to achieve 26% per annum consistently.
- 4.4.4 We also consider how we compare with other organisations through the Housemark benchmarking service and the HCA Global Accounts. For benchmarking, we have changed our peer group from identified organisations which share characteristics with us in terms of size, location and resident profile, to all traditional English housing associations with between 1,000 and 2,500 units. This move away from named organisations is due to the group constantly changing each year because some organisations data was not available, or organisations ceased to exist or joined other group structures. As social housing organisations vary widely it is difficult to find an exact match and this is taken into account when comparing performance against others.
- 4.4.5 We have benchmarked RHA against other traditional English housing associations with between 1,000 and 2,500 units, selecting some key business areas to benchmark against, including overheads, key financial indicators, service delivery and resident satisfaction indicators. These key benchmarking statistics and an indication of the areas where we seek to make improvements in future years are summarised at appendix 1.
- 4.4.6 The VFM self-assessment for 2015/16 identified improvement targets for 7 benchmarked performance indicators. As can be seen at appendix 1, 4 of these indicators have achieved or exceeded their target according to the benchmarking results.
- 4.4.7 The HCA has used the 2016 Global Accounts data to produce unit cost data for each registered provider. The results for RHA show below average total costs, low management and other costs, and higher service charge and repair costs. The higher than average service charge costs is due to the high proportion of housing for older people. We are aware of the association's high repair costs and have been working to improve performance in this area; in 2015/16 a schedule of rates

was introduced to reduce costs and improve the information that we have on these repairs. We expect to see improved results in this area in the 2017 Global Accounts. The unit cost data supplied by the HCA is attached at appendix 2.

- 4.4.8 The association has participated in the Sector Scorecard pilot that was launched this year, which benchmarks 15 key performance indicators measuring efficiency and effectiveness. A summary of the results is attached at appendix 3.
- 4.4.9 The results of our benchmarking still demonstrate mixed results for RHA although improvements have been made, and we will continue to work towards the improvement targets that we have set ourselves, and set new ones. One of the objectives within the VFM strategy is to achieve top quartile performance against our peers in relation to key VFM indicators. This is achieved particularly in relation to arrears and key resident satisfaction indicators, however we are aware that there is further work to do in relation to the operating margin, repairs and maintenance costs and some of the core housing management activities.
- 4.4.10 The service reviews which have been carried out have covered a number of these areas and the delivery of the action plans associated with the reviews will result in improvements in performance.

#### **4.5 Social Value**

- 4.5.1 During 2015-16 we developed an approach for measuring the social value of the association's activities using the Social Return on Investment (SROI) framework with the assistance of an independent consultant. Through a comprehensive programme of consultation with a relevant sample of stakeholders we identified six material outcomes for all residents from using the association's services:
- Safer home better suited to needs and lifestyle
  - Feeling more included in the community
  - Better more personal service
  - Better informed and able to deal with issues
  - Well maintained home by trusted people
  - More included in decision making.
- 4.5.2 Residents of sheltered schemes experienced a further three material outcomes:
- Reduced isolation
  - Increased independence
  - Increased confidence.
- 4.5.3 A ratio of return was calculated by dividing the value of the impact, from extensively researched proxies, by the value of the investment. The return is £2.26:£1, i.e. for every £1 of investment in the association £2.26 of social value is created. The majority of this value (89%) is created for residents with an average of £8,864 of value created per individual sheltered scheme resident, and £4,802 each for other residents. The SROI analysis also identified that the association is creating £500k of value for the Government/public sector.
- 4.5.4 It is intended that the social value of the association's activities will be remeasured every five years.

#### **4.6 Culture**

- 4.6.1 A VFM culture is essential to the delivery of our VFM strategic goal. Through our VFM strategy we aim to develop a culture of efficiency and VFM throughout the

organisation, through training, briefings, team meetings and individual performance management.

- 4.6.2 A staff satisfaction survey is carried out biennially, and in October 2015 we included questions on employees' understanding of VFM and the association's culture in relation to VFM for the first time. 26 out of 33 members of staff completed the survey, with the results demonstrating a strong VFM awareness as summarised in the table below. Staff will be resurveyed later in 2017.

**Table 7 Staff Satisfaction Survey 2015/16**

	<b>Agree</b>	<b>Disagree</b>
I understand what is meant by value for money	96.2%	3.8%
I am able to define what value for money is	96.2%	3.8%
I am aware of the association's value for money strategy	100.0%	0.0%
I have received training on value for money	96.2%	3.8%
I believe that the association is a value for money driven organisation	92.3%	7.7%
I believe that I embrace value for money in my day to day decision making	100.0%	0.0%
I can provide examples of how value for money is used in decision making by my department	96.2%	3.8%
I am encouraged to come up with ideas that result in value for money savings and improvements	100.0%	0.0%

- 4.6.3 The VFM steering group continues to develop, with all members gaining in knowledge and confidence and increasingly providing challenge to current practices and performance. The steering group oversees the VFM suggestion scheme that is open to staff and residents, and generated 14 suggestions in 2016/17 contributing to the achievement of the savings target. The steering group has selected the suggestion of the year which was to reduce the size of the newsletter, saving £1,032 per year on postage, printing and envelope costs. The reward for this suggestion will be presented at the residents' conference in June which should encourage residents and other members of staff to make suggestions.

## **5. Future plans and aspirations**

### **5.1 Business strategy**

- 5.1.1 The association has a strategic objective relating to VFM and the theme of VFM runs through all of the objectives within the business strategy. The business strategy sets out the following commitments in relation to VFM:

- Continue to improve our understanding of our current value for money position
- Promote and embed a value for money culture
- Achieve year on year efficiency savings
- Continue to agree with customers how value for money gains are used
- Optimise the future returns on assets
- Target resources towards front line services
- Maintain a high level of customer satisfaction with value for money
- Achieve top quartile performance in recognised value for money indices.

## 5.2 VFM targets

- 5.2.1 As stated in paragraph 4.4.7 above we have targets for improvement against our peers in a number of areas. Additionally we have set a target of 5% of operating costs for VFM savings in the 2017/18 financial year. In terms of the budget this equates to £183,447.

## 5.3 VFM action plan

- 5.3.1 For the coming year we have agreed a number of key actions within the VFM and procurement action plans and these are summarised in table 7 below:

**Table 7 VFM actions 2017/18**

Action	Target date	Anticipated outcome
Complete a VFM self assessment annually	Jun 2017	Compliance with HCA standard and demonstrates progress made on VFM journey
Identify at least one VFM related objective for all members of staff annually	Jun 2017	Supports the process of embedding VFM throughout the association and should result in additional VFM savings
Explore providing specific details of repair and improvement work to residents so that they can monitor contracts	Dec 2017	More efficient and effective services and increased resident involvement in procurement activity
Commission service reviews of finance and major works	Dec 2017	Identify where VFM can be improved and establish and develop the VFM culture within the association
Continue to complete options appraisals for the schemes with the lowest net present values	Mar 2018	Ensures that schemes with lower values are subject to scrutiny and that action can be taken to improve their values
Continue to implement the action plans resulting from the VFM reviews of day to day repairs, procurement, voids/lettings, and housing management and asset management services	Mar 2018	More effective and efficient services
Develop an action plan annually to address the issues arising from the benchmarking of service costs	Mar 2018	Benchmarking results are understood and areas of concern are identified and addressed resulting in improved performance

## 5.4 Service reviews

- 5.4.1 As stated elsewhere in this report service reviews have been carried out in the following areas:

- Day to day repairs

- Procurement
- Voids and lettings
- Housing management
- Asset management.

5.4.2 During the course of the coming year the final actions resulting from these reviews will be completed.

5.4.3 A programme of service reviews has now been developed in line with the VFM actions for 2016/17. Reviews will be carried out over a five year period as follows:

<b>Year</b>	<b>Business activity</b>	<b>Review</b>
2017/18	Development	Investigate lower quartile satisfaction only (internal)
	Major works	Full VFM review
	Finance	Full VFM review
2018/19	Void works	Full VFM review
	IT & communications	OJEU compliant procurement process
2019/20	Cyclical maintenance	Full VFM review
	Responsive repairs	Full VFM review
2020/21	Central services	Full VFM review
	Estate services	Full VFM review
2021/22	Housing management	Full VFM review

## **6. Evidence for the Board**

6.1 The Board is provided with a number of reports to ensure that VFM is central to the work of the association and to ensure that the Board leads on VFM and meets its responsibilities under the VFM standard.

6.2 This statement has been reviewed and approved by the Board and provides assurance that we are meeting our VFM objectives and responsibilities.

6.3 The annual budget is considered in detail and approved by the Board, and includes VFM targets.

6.4 The Audit Committee monitors the risk register at each meeting, which includes VFM as one of the association's key strategic risks. Progress in managing this risk is therefore under regular scrutiny.

6.5 Management accounts are received by the Board on a quarterly basis which enables the Board to monitor progress against budget.

6.6 The balanced scorecard includes VFM indicators which enable the Board to review and monitor progress in respect of VFM. For 2016/17 these included:

- VFM savings achieved as a percentage of total revenue spend
- Performance against budget
- Percentage of current rent arrears
- Void loss
- Quartile position for total cost of repairs and void works
- Ratio of planned/responsive repairs
- Average net present value (of housing properties)

- Percentage of properties re-let within target of 25 days
  - Average energy efficiency rating
  - Percentage of properties achieving minimum SAP rating of 55
  - Percentage of residents that are satisfied that their rent represents VFM
  - Percentage of residents satisfied with the overall service
  - Number of days of absence due to sickness per employee per annum.
- 6.7 The VFM strategy is recommended to the Board by the VFM steering group and is reviewed on an annual basis including an update on achievements and progress made on the action plan.
- 6.8 A Board member sits on the VFM steering group.
- 6.9 All Board reports include as a standard consideration the VFM implications of the recommendations so that VFM is considered by the Board as part of every decision.

### **Background papers**

The following documents have direct links to this self-assessment:

The VFM strategy <http://www.railwayha.co.uk/about/publications/category/corporate-5/>

The business strategy

<http://www.railwayha.co.uk/about/publications/category/corporate-5/>

## Benchmarking Results

Indicator	Sample Size	2014/15		2015/16		2016/17		Improvement target
		Result	Quartile	Result	Quartile	Result	Quartile	
<b>Financial and overheads</b>								
Growth in turnover	11	4.6		4.2		0.5		
Operating margin	23	19.7		17.6		19.3		
EBITDA	22	272.4		281.6		283.9		
Overhead as % turnover	24	14.20		13.69		13.66		
<b>Housing management</b>								
Cost per property	24	635.88		567.21		515.50		
Current tenant arrears as % rent due	19	1.76		2.06		1.95		
% rent collected	18	99.92		99.44		99.98		
Tenancies terminated as % properties managed	19	10.15		10.99		9.17		
Average re-let time	19	39.75		21.76		27.24		
Direct cost of resident involvement	19	81.03		59.13		No data		
<b>Asset management</b>								
Cost per property of major works and cyclical maintenance	24	1479.75		1308.77		1229.84		
Cost per property of responsive repairs and void works	24	813.02		851.50		864.36		
Average number of responsive repairs per property	21	2.6		3.0		3.0		
% non-decent dwellings		0.0		0.0		0.0		
Average SAP rating	20	74.6		70.4		70.2		
<b>Resident satisfaction</b>								
Overall satisfied with service	18	90.90		90.90		90.90		
Satisfied with quality of home	18	89.90		89.90		89.90		
Satisfied with neighbourhood	17	92.90		92.90		92.90		
Satisfied that rent represents VFM	18	93.10		93.10		93.10		
Satisfied with repair service	18	87.80		87.80		87.80		
Satisfied that views are being listened to and acted upon	17	81.70		81.70		81.70		

Upper quartile Middle upper Median Middle lower Lower quartile No data

## 2015/16 Global Accounts Unit Cost Data

Cost data:

Railway Housing Association	Closing social housing units managed	Headline social housing cost CPU (£k)	Management CPU (£k)	Service charge CPU (£k)	Maintenance CPU (£k)	Major repairs CPU (£k)	Other social housing costs CPU (£k)
2015/16	1,431	3.65	0.76	0.60	1.21	0.96	0.12
2014/15	1,420	3.50	0.71	0.58	1.19	0.92	0.10
Sector level data:							
Total		3.97	1.08	0.53	1.01	0.89	0.47

Key contextual information:

Railway Housing Association	% supported housing	% housing for older people	Provider type	Date of largest transfer	LSVT age	Region	AHHE regional wage index (England = 1)
2015/16	0%	61.5%	Traditional			North east	0.91
2014/15	0%	62%	Traditional			North east	0.91
Sector level data:							
Total	4.6%	12.2%					

## Sector Scorecard pilot 2016/17

Indicator	Sample size	Railway Housing Association	Upper quartile	Median	Lower quartile
<b>Business health</b>					
Operating margin (overall)	34	19.30	34.70	28.35	22.23
Operating margin (social housing lettings)	30	18.85	31.40	27.00	20.97
EBITDA MRI (as % interest)	32	283.90	447.63	235.95	164.28
<b>Development (capacity and supply)</b>					
Units developed (absolute)	32	0.00	51.25	112.50	0.00
Units developed (as % units owned)	32	0.00	1.54	0.25	0.00
Gearing	33	23.13	18.83	33.60	40.89
<b>Outcomes delivered</b>					
Customer satisfaction	27	90.90	92.20	90.00	84.15
£s invested in new housing supply (for every £ generated from operations)	26	0.20	0.26	0.46	0.96
£s invested in communities (for every £ generated from operations)	24	0.00	0.00	0.01	0.05
<b>Effective asset management</b>					
Return on capital employed (ROCE)	31	2.56	4.73	3.23	2.73
Occupancy	29	99.15	99.75	99.50	99.20
Ratio of responsive repairs to planned maintenance	31	1.04	0.60	0.85	1.12
<b>Operating efficiencies</b>					
Management cost per unit	32	626.00	739.50	955.50	1,247.75
Service charge cost per unit	30	571.00	167.75	282.00	566.25
Maintenance cost per unit	32	1,003.00	778.75	1,003.50	1,238.50
Major repairs cost per unit	31	799.00	338.00	698.00	1,039.00
Other social housing cost per unit	30	82.00	44.50	117.00	264.75
Headline social housing cost per unit	30	3,081.00	2,744.75	3,086.00	4,440.25
Rent collected	29	99.98	100.20	99.87	98.85
Overheads as % adjusted turnover	24	13.55	10.91	13.40	17.49

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