

# Value for Money Strategy

2020 - 2025

ForHousing 

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ForHousing is part of the ForViva Group and currently manages and owns 23,518 homes across the North West of England; primarily within Salford, Oldham, Knowsley, Fylde and Cheshire West and Chester, as well as other external commercial stock management arrangements.

ForHousing's vision is Improved Lives and our mission is to provide quality homes and places that make more things possible for more people. The Corporate Plan 2020-25 sets priorities for two key themes: 'Homes' and 'Communities'. These are underpinned by a commitment to do the right things, in the right way, to the right standard and at the right cost. We refer to these as the 4Cs: Customer, Culture, Compliance and Cost.

Our five year Value for Money (VfM) Strategy provides direction on how VfM performance will be optimised whilst also improving over time. It is particularly relevant to Cost as an approach to achieving the right price, defined as the right quality at the lowest price. This requires a comprehensive understanding of what creates cost.

Optimising the value and the return on our resources enables additional investment in homes and communities to provide quality homes where people want to live, and services that balance quality and cost. As well as meeting the needs of tenants and communities, investment protects social housing assets and improves our borrowing capacity to deliver growth and sustainable improvements. Outcomes include safe homes kept in a good state of repair, that support health and independent living, and external spaces that are well maintained, function well and promote a high quality of life for the community.

These strategic aspirations, alongside stakeholder expectations and statutory and regulatory duties, place competing pressures for resources. Clear, well-articulated and widely consulted VfM decisions are critical for continuously improving VfM performance, which in turn increases capacity to deliver strategic objectives.

## Summary

This document sets out ForHousing's aspirations between 2020-25 to deliver strategic objectives whilst spending economically (less), efficiently (well), effectively (wisely) and equitably (fairly).

The VfM framework sets the outcomes ForHousing is aiming to achieve, defines the approach for achieving and improving VfM over time and sets arrangements to assess and report VfM performance.

## Priorities and outcomes

VfM means optimal use of resources to achieve the intended outcomes.

ForHousing will achieve this through the following key aim:

**“To deliver the strategic objectives whilst spending economically (less), efficiently (well), effectively (wisely) and equitably (fairly).”**

ForHousing’s framework to achieve VfM comprises of three areas:

- (1) Strategic direction - Outcomes ForHousing is aiming to achieve are defined and widely understood.
- (2) VfM approach - How VfM will be achieved and improved over time is appropriately planned and delivered.
- (3) VfM assessment - VfM performance is measured, reported and held to account.

### VfM Framework

#### (1) To set the strategic direction of ForHousing

To ensure resources are appropriately invested, ForHousing will set a clear direction for the organisation through its Corporate Plan and related strategies.

The Corporate Plan will ensure ForHousing keeps true to its aims and purpose, as set out in the business plan, and will provide opportunity to convey medium to long-term aspirations and forecasts to inform planning and delivery.

ForHousing will expect to optimise VfM from resources in all areas of activity, including assets, services and staff. The Corporate Plan will enable areas of the organisation to understand how they can, and do, contribute to add value.

Outcomes will be set to define success and quantifiable targets will measure delivery year on year. This will ensure transparency and accountability to tenants and other stakeholders.

Key areas of focus will include plans to deliver homes that meet a range of needs and priorities identified by tenants and other stakeholders.

Regular reviews will ensure changes in the operating environment will be identified and responded to, ensuring short, medium and long-term viability.

There will be a commitment to improving VfM performance in the short, medium and long term. This will embed the commitment to achieve the right quality at the lowest price which we consider to be the ‘right price’.

#### (2) To set a VfM approach for ForHousing

A comprehensive framework will set out how VfM will be achieved, and crucially improved, over time. This will comprise of:

- Influences - How resources are used to achieve intended outcomes
- Timeline - How better value is achieved over the short, medium and long term

- Decision making - How investments address an identified problem or need

**(2.1) Influences**

The framework will set out how resources are used to achieve intended outcomes. This will drive optimum spending in ways which are:

- **Economic** - Minimising the cost of resources used or level of resources required, to deliver the same or improved products and services
- **Efficient** - Ensuring resources deliver the required products and services
- **Effective** - Ensuring resources make a difference, with both intended and unintended outcomes understood
- **Equitable** - Ensuring services reach the audience they are intended for

**This reinforces that all processes producing and delivering activities, known as the value chain, are held responsible for VfM. This includes front line services, back office support functions and activities delivered by partners on behalf of ForHousing.**

A summary of this approach is provided in Table 1.

Table 1. Applying VfM influences

| Economic   | Efficient  | Effective   | Equitable   |
|--|--|---|---|
| The cost of resources used or level of resources required is minimised<br><br>= spend less | Resources deliver the required products and services (outputs)<br><br>= spend well | Resources make a difference (can be intended and unintended outcomes)<br><br>= spend wisely | Products and services reach their intended audience<br><br>= spend fairly |
| <b>Invest</b>  | <b>Produce</b>   | <b>Change</b>   | <b>Target</b>   |

**(2.2) Timeline**

The framework will require well considered realistic VfM targets to be set and achieved, recognising these may be delivered over the lifespan of an activity from:

- **Commissioning** - To deliver better value through contract specifications and market testing via procurement and partnerships. This includes negotiating added value and social value and sharing efficiencies during contracts.
- **Delivery, short term** - To deliver better value through quick wins. This includes service improvements and more efficient ways of working.
- **Delivery, medium term/long term** - To deliver better value by 'invest to save' activities. This includes technology and assets or re-engineering how services are delivered. Initially these may require sizeable investment, but over time this returns efficiencies. Through improved processes, costs reduce, and/or more is delivered, for the same or less cost.
- **Recommissioning** - To deliver better value through contract specification enhancements and retesting of the marketplace. This includes procurement, working

with different partners and negotiating added value from existing contracts.

- **Group Service Agreements** - To deliver better value through well-defined and costed working agreements with Group Service teams.

### (2.3) Decision making

Robust options appraisals will determine how investments address an identified problem or need. These will comprise of:

- **Structure** - Governance arrangements will deliver their aims, objectives and intended outcomes in an effective, transparent and accountable manner. The Board will have a strong understanding of how financial resources are prioritised and allocated in order to achieve VfM across all core functions. It will also understand the operating cost implications when making key strategic and policy decisions.
- **Customer Centric** - Tenants and other stakeholders will have a say about investment decisions which affect them.
- **Risk** - Costs and risks will be compared against expected rewards, particularly for non-social housing activity which traditionally attract more risk.
- **Costs** - The financial or non-financial benefits of using resources in a certain way (opportunity cost), the financial or non-financial benefits of using resources differently and absolute cost, how it changes over time and how it compares to other organisations, will be taken into account.
- **Consequences** - The implications on capacity to deliver other objectives, especially statutory and regulatory duties, will be taken into account.
- **Reviews** - Decisions to invest and support activities will be regularly reviewed to ensure they still meet the identified need.
- **Rationale** - The reason for decisions will be clearly articulated especially where there is support for a lower than available financial return, for example, choosing to rent properties below the market rent to meet strategic objectives.

### (3) To carry out a VfM assessment for ForHousing

VfM regulatory submissions will be completed to the required standards. As well as ensuring regulatory compliance this will achieve transparency and accountability for VfM performance, the optimum use of assets and resources.

Performance will be scrutinised by the Board, particularly when expected levels of delivery are not achieved.

There will be clear conclusions which make it easy for a wide range of stakeholders to make their own judgement on VfM.

Assessments will report against the golden thread of performance. This includes delivery against targets, which will appropriately measure the strategic objectives in the context of historic performance.

Reasons for targets not being met will be understood and explained, with underlying factors influencing performance known and evidenced.

Plans will be in place to drive improvement where targets are not met, or a rationale will be provided for not planning remedial action.

Benchmarking will be undertaken with peers and high performers nationally, in the public, private and voluntary sectors, to assist us to identify potential areas for improvement.

Impact will be measured in monetary values (monetisation), where possible.

Assessments for different activities will be reported separately to provide insight into individual contributions to VfM performance.

## Delivery: Customer, Culture, Compliance and Cost

### **Customer - Do the right things**

VfM decisions will address an identified problem or meet a particular need. Through our approach to Tenant Voice we will work with tenants to identify where investments can meet need and make the biggest impact. Tenants involved in the development of The New Deal for Social Housing, Green Paper have already identified the new supply of social and non-social housing as a priority.

VfM reporting will ensure performance is transparent to tenants so they can hold us to account on what they pay, the cost of delivery and the outcomes experienced.

We will annually report on our development programme including new homes forecast, the timeframe over which homes will be delivered and how specific development plans support demand in the local area. We will also ensure our design and quality standards are equitable across all types of tenure so the tenant experience is not influenced by the ability to pay.

The impact of investment decisions on tenants will be evaluated as part of the options appraisal process. Government consultation for the Green Paper identified a national issue with costs being incurred by tenants due to sub-standard lettings and repairs not being completed right first time. Poor energy performance of homes was also sighted as a reason for incurring high costs in order to keep warm. Tenants reported that many services were considered unwanted, unnecessary and costly.

As far as is possible, whilst we need to keep clear control over VfM, we will ensure tenants have real choice about services and what they have to pay for these.

### **Culture - In the right way**

People responsible for VfM at an operational level, in the activities carried out, and at a strategic level, in strategic decisions, will have training, support and guidance to assist them to fully understand and apply the VfM framework. This will particularly highlight the importance of VfM, not only for regulatory compliance but also to ensure there is capacity to deliver the strategic purpose and objectives of ForHousing.

Through performance management and VfM annual reporting, people will be accountable for managing assets and resources to achieve strategic objectives. This includes assurance around the robustness of decision making and will reflect variances between different parts of the business such as geographic areas of operation.

A framework will be in place for teams to assess and report VfM annually, this will include how they have invested and the intended and unintended outcomes this attracted. The framework will apply to non-housing activities such as wellbeing activities, and on a team-

by-team basis across ForHousing and Group Services. For Group Services these will align to Group Service Agreements and for ForHousing teams these will reflect accountability for delivering the corporate priorities. Teams will include VfM assessments for activities they have commissioned internally and externally, taking into account contract compliance, quality assurance checks and consumer satisfaction.

The approach to remuneration and employment costs will also be considered to ensure it represents an optimal use of resources. These assessments inform judgements on VfM contributions from different parts of the organisation and for individual activities.

### **Compliance - To the right standard**

We will always work to be an effective landlord, ensuring we are regulatory and statutory compliant, including through the provision of safe homes. We will therefore ensure we make investment decisions which enhance safety to always protect tenants in their homes. Decisions to improve building safety will involve tenants who have said, through Government consultations, they need further assurance that the homes and buildings they live in are safe and will remain safe.

Regulatory returns will be completed on time and to required standards. This includes the Regulator's Value for Money metrics which measures economy, efficiency and effectiveness. Submitted annually, these metrics will capture performance across the social housing sector in a fair and comparable way.

We will include a narrative of what the metrics say about ForHousing and its delivery of VfM, including how it compares to similar providers. ForHousing's annual VfM statement, published in the statutory accounts, will assess compliance against the VfM Standard and will include an overview of investment decisions, such as supply and demand and stock condition, with their rationale.

ForHousing's audited Annual Financial Accounts, known as FVA, will provide the financial accounting information required by the Regulator to assess compliance with the Governance and Financial Viability Standard. It will also provide sector level data to inform Regulator financial analyst publications, including the Global Accounts.

Appropriate targets will be set to measure the delivery of corporate priorities. We will place particular importance on measuring cost per unit (CPU) and having a clear understanding of how this is created and where efficiencies could be made. This includes understanding and reporting on maintenance and major repair costs per property. Other key performance indicators such as bad debts, void loss and current arrears are important to assess our efficiency in lettings and rent collection.

We will continue to benchmark performance with peers to understand our performance when compared to the social housing sector. We will also ensure we are aware of the best performers nationally, and how we compare to these sector or industry standards. This will include regularly reviewing our peer group to ensure it is still relevant and will acknowledge the Regulator's findings that there are no statistically significant differences between older LSVTs (>12 years since transfer) like ourselves and traditional providers.

### **Cost - At the right cost**

The focus of this strategy is to optimise the use of resources to achieve the corporate priorities. This will be challenging as we maintain the housing stock to required or plus standards, carry out building safety works, meet new energy efficiency standards and

build more truly affordable homes. An operating context of maintenance costs increasing at a higher rate than rental income, and rising construction costs reducing income from property sales, makes this aspiration more difficult to achieve.

Our response to the consequences of the Coronavirus threat will require some challenging business decisions to ensure short, medium and long viability. Over the next five years, our focus will be on getting the basics right and demonstrating VfM in the core social housing activity. This will ensure there is capacity to invest in high quality homes and services for tenants

Going forward we will continue to ensure we retain awareness of the operating context and mitigate for the changes to the social, economic and political climate. VfM variables include:

- **Wages** - Levels of unemployment can influence demand for staff resources, driving wage levels.
- **House prices** - Housing market demand and related house prices can influence house sales and therefore profitability.
- **Construction** - Levels of construction costs can influence levels of expenditure for the same outcome and is a key factor on operating margin and profit after costs - before interest or tax.
- **Rent levels** - Rent reductions will end March 2020 after which increases will be limited to Consumer Price Index (CPI) plus one per cent for five years. CPI measures the average change in prices over time that consumers pay for a basket of goods and services.
- **Interest rates** - Changes in The Bank of England base rate can influence loan repayment costs. Interest cover is needed to service existing debt and support future investment.
- **Turnover** - Income from rents, service charges, market sales, outright sales and Low Cost Home Ownership all impact on turnover. The ability of tenants to pay and the demand for new homes are determining factors.
- **Development of New Homes** - ForHousing is investing £90 million to build 890 much-needed new homes over the next five years across the North West.
- **Commercial** - Income from contracts contributes to turnover but tends to attract more risk.
- **Disposal of fixed assets** - Proceeds can be attained from stock rationalisation, sale of void properties and sale of non-social housing assets.

## Measuring success

Achievement of the corporate priorities in the context of VfM performance is the ultimate measure of success. Delivery of the corporate priorities will primarily be reported through ForHousing's annual report. An annual Wellbeing Impact Report will provide more detail to tell the stories of the difference made to tenants and customers by wellbeing activities.

Key achievements from these documents will be included in the annual VfM statement within the Annual Financial Accounts. This reports achievements in the context of financial activity. As a Registered Provider, ForHousing is required to meet the Housing Regulator's VfM Standard. These documents are key evidence of compliance. The required outcomes and specific expectations of the VfM Standard that need to be met are provided in Appendix 1.



Our approach to VfM also has relevance to the Governance and Financial Viability Standard, specifically how resources are managed while ensuring social housing assets are not at undue risk. The level of compliance will be reported in the Regulator's Viability rating.

## Governance

The ForHousing Board is responsible for ensuring ForHousing meets the Regulator's prescribed outcomes and specific expectations of the VfM Standard.

ForHousing has autonomy to choose how these are achieved and this approach is required to be approved by the ForHousing Board. This strategy must include how ForHousing will deliver homes that meet a range of needs and ensure optimal benefit from resources and assets to achieve strategic objectives.

The Regulator will use ForHousing's performance against the economic standards to gain an understanding of short and long-term risks to which ForHousing is exposed and to gain a comprehensive understanding of the approach to VfM.

## Document summary

This strategy sets out ForHousing's approach to planning, delivering, assessing and reporting VfM in the activities it undertakes to deliver the corporate priorities.

## Research

The development of this strategy included a comprehensive review of research undertaken by the following organisations which have a specific interest in VfM.

Value for Money Code of Practice, Regulator of Social Housing, April 2018. Designed to help registered providers of social housing understand what the Regulator is looking for when seeking assurance on compliance with the VfM Standard. The code clarifies the Standard by explaining and elaborating on the content, with illustrative examples where necessary.

The Regulator's 2019 Global Accounts of private registered providers, January 2020. This identifies factors affecting social housing sector finances, using regulatory returns of private registered providers. The accompanying VfM metrics and reporting 2019 gives an overview of VfM Statements. 2019 was the second year in which registered providers were required to meet the reporting requirements of the 2018 VfM Standard. This report gives any overview on statement content that successfully met the standard, as well as content that did not.

National Audit Office (NAO) criteria to assess the VfM of government spending i.e. the optimal use of resources to achieve the intended outcomes. We, like many other organisations, have adopted the NAO's definition of VfM. The Regulator's VfM Code of Practice shares the same approach to VfM as the NAO of including 'achievement of economy, efficiency and effectiveness. The NAO offers an additional area of equitable, which ForHousing has adopted as it aligns to our social purpose.

## Appendix 1 - Value for Money Standard 2018

### 1 Required outcomes

#### 1.1 Registered providers must:

- a. clearly articulate their strategic objectives
- b. have an approach agreed by their board to achieving value for money in meeting these objectives and demonstrate their delivery of value for money to stakeholders
- c. through their strategic objectives, articulate their strategy for delivering homes that meet a range of needs
- d. ensure that optimal benefit is derived from resources and assets and optimise economy, efficiency and effectiveness in the delivery of their strategic objectives.

### 2 Specific expectations

#### 2.1 Registered providers must demonstrate:

- a. a robust approach to achieving value for money – this must include a robust approach to decision making and a rigorous appraisal of potential options for improving performance
- b. regular and appropriate consideration by the board of potential value for money gains – this must include full consideration of costs and benefits of alternative commercial, organisational and delivery structures
- c. consideration of value for money across their whole business and where they invest in non-social housing activity, they should consider whether this generates returns commensurate to the risk involved and justification where this is not the case
- d. that they have appropriate targets in place for measuring performance in achieving value for money in delivering their strategic objectives, and that they regularly monitor and report their performance against these targets.

#### 2.2 Registered providers must annually publish evidence in the statutory accounts to enable stakeholders to understand the provider's:

- a. performance against its own value for money targets and any metrics set out by the regulator, and how that performance compares to peers
- b. measurable plans to address any areas of underperformance, including clearly stating any areas where improvements would not be appropriate and the rationale for this.