

# **WATMOS Community Homes**

## **Value for Money Self Assessment 2015/16**

To create strong, sustainable communities within safe and pleasant neighbourhoods through resident control and locally accountable tenant management

## 1. VFM STRATEGY

### Introduction

WATMOS is a unique landlord owning almost 2,700 homes for rent in Walsall, West Midlands and Lambeth in London.

The organisation is based around eleven Tenant Management Organisations (TMOs) who have successfully managed their own estates for many years. We value tenant management and believe that local people should decide how their housing services are run.

WATMOS is the landlord and owns the homes. It is responsible for the strategic development of the organisation as a social landlord and its relationship with the Council, the Social Housing Regulator, and its lenders. WATMOS also arranges the major housing improvements and regulates the provision of housing services by the TMOs through a formal management agreement.

The eleven TMOs provide local housing services on behalf of WATMOS. They are tenant-run organisations who for many years managed their own estates on behalf of the Council through a process known as the Right to Manage. On behalf of WATMOS, they continue to do all the normal housing management services on their estates based on a formal management agreement. Each of the TMOs employ their own staff.

We recognise that, first and foremost, the success of a landlord is based on getting the basics right. This means maintaining an effective and efficient approach to managing the business including:

- Maximising the collection of rental income.
- Minimising the number of vacant homes and how long they are empty.
- Maintaining our homes in good condition.
- Good tenancy management and the control of nuisance.
- Maintaining a pleasant residential environment.

Over and above the basics though, as an organisation founded by tenants for tenants we are committed to:

- Promoting the values of community-controlled housing and demonstrating the benefits of tenant management. We are convinced that services under the democratic control of their users are more likely to be in tune with their genuine needs and requirements and therefore deliver genuine VFM.
- Being organised on a human scale because this is the only way real accountability is possible.
- Being local and accessible; we are committed to providing services at a local estate level through accessible offices.
- Providing a secure and pleasant residential environment
- Creating strong communities in which people are encouraged to play an active part.
- Offering social and personal development opportunities. Being involved in a TMO provides tenants and residents with personal development opportunities and the chance to get involved in a wide range of social activities. Working with others to strengthen community-controlled housing. Co-operative and resident-led housing thrives on positive partnerships and networks. We will work with like-minded organisations locally, regionally and nationally to promote and raise the profile of community-controlled housing and strengthen the sector within the wider housing world.
- Representing a successful alternative model of social housing. We are committed to the idea of community-controlled housing and believe that WATMOS represents a

good example of its benefits. We will strive to be a role model that other tenants and residents organisations will want to follow.

### **What is our Strategy?**

At Watmos we seek to demonstrate value for money and deliver continuous improvement in the context of our unique operation, providing estate based services which are controlled by the community. Indeed, the need to be efficient and provide value for money was one of the underlying drivers for TMOs when setting up their original organisations.

The focus to improve Value for Money, and performance management will be different in Lambeth to the focus in Walsall because the organisation is at a different stage of development, with different priorities in each area.

WATMOS is committed to ensuring costs and performance are managed efficiently.

A large proportion of our tenants and residents are low income households and some of our estates are in areas of high deprivation. The majority of our stock is high or low rise accommodation, and a significant proportion of our residents are affected by the Governments benefit reforms.

Cost control, and relatively low levels of spending compared to others are an important goal but must be complemented by high levels of tenant satisfaction and the provision of high quality, resident focussed, well performing services. Above all, our aim is to ensure we are a balanced organisation. That means we target our resources and efforts at those services, projects and initiatives that fulfil our agreed priorities. That is where our efforts and resources will have the greatest impact on the lives of the people who live and work in WATMOS properties and on our estates.

In Lambeth, WATMOS and the TMOs are delivering a series of transfer promises that involve significant major expenditure and a programme of physical improvements to the estates and inside the homes. Much of the focus to achieve Value for Money in Lambeth is on issues relating to procurement of large scale contracts and works, as existing contracts with Lambeth Council and their contractors have expired, giving the option to procure services in a different way, to improve services, make the specification more locally relevant, and to improve contract monitoring or management. The timetable for this is partly set by the transfer agreement that was negotiated between WATMOS, the TMOs and Lambeth Council.

For Walsall TMOs, where the transfer promises have been delivered, the focus is on achieving Value for Money in service delivery locally, through identifying the service that residents most want to see the TMOs provide, through review of specifications, along with identifying the existing social value, environmental value, and outcomes that the money and voluntary effort invested by the TMOs provides. The approach to procurement will be important, but with fewer large scale contracts and long term building and service delivery decisions being made the focus will be on addressing inputs, outputs and outcomes. This applies equally to our central teams.

### **How is VFM embedded?**

The day to day management and maintenance of our homes is undertaken by the eleven TMOs in accordance with their Management Agreement. This places tenants living on our estates at the heart of decision making on spending priorities, balancing competing demands and delivering VFM. The people living on our estates are in control and are highly motivated to eliminate waste and inefficiency.

At Board room level all decisions are taken in the context of VFM and spending/investment proposals are scrutinised for value. In particular TMOs are peer reviewed and hold each other to account for any loss of effectiveness. All Board reports set out explicit VFM implications of the decisions Board is taking.

Amongst our staff we have implemented a 'VFM template' which allows colleagues to capture and share their successes great and small.

### How does Board ensure compliance?

Watmos Board recognises the importance the HCA's Governance & Financial Viability Standard and the VFM Standard have in protecting social housing assets and the reputation of the social housing sector.

Watmos Board ensures compliance with the VFM Standard as follows.

**Table 1. Compliance with the VFM Standard**

<b>Registered Providers shall:</b>	<b>Watmos Board does this by:</b>
<p>Have a robust approach to making decisions on the use of resources to deliver the provider's objectives, including an understanding of the trade-offs and opportunity costs of its decisions</p>	<ul style="list-style-type: none"> <li>• Meeting at Board Away Days to set the strategic vision of Watmos and to consider the trade-offs (opportunity cost) necessary to support the tenant management model</li> <li>• Annually reviewing and approving a long-term financial plan to underpin the Corporate Plan</li> <li>• Monitoring delivery of the key objectives of the Corporate Plan</li> <li>• Allocating resources through the annual budget cycle</li> <li>• Undertaking stress testing and risk reviews</li> </ul> <p><i>In addition, in 2016 Watmos Board has set-up three sub-groups to thoroughly reassess and challenge our current approach and methodology in three key areas. One of these groups will undertake a detailed review of our Financial Strategy whilst another will actively seek opportunities for Watmos to develop new homes in London and Walsall.</i></p>
<p>Understand the return on its assets, and have a strategy for optimising the future returns on assets – including rigorous appraisal of all potential options for improving value for money including the potential benefits in alternative delivery models - measured against the organisation's purpose and objectives</p>	<ul style="list-style-type: none"> <li>• Commissioning an external valuation of our housing stock including the net present value of schemes</li> <li>• Receiving specialist advice in developing strategies including an asset management strategy which will frame future investment decisions</li> <li>• Monitoring delivery of the Lambeth investment programme in accordance with the 'transfer promise'</li> <li>• Maintaining a detailed Assets &amp; Liabilities Register</li> </ul> <p><i>In addition, in 2016 Watmos Board has set-up three sub-groups to thoroughly reassess and challenge our current approach and methodology</i></p>

	<i>in three key areas. One of these will undertake a detailed review of the TMO model of delivering housing management and of the opportunity costs or trade-offs this requires.</i>
Have performance management and scrutiny functions which are effective at driving and delivering improved value for money performance	<ul style="list-style-type: none"> <li>• Receiving scrutiny reports measuring performance against a range of performance targets</li> <li>• Considering management accounts detailing performance against budget including delivery of the Lambeth investment programme</li> <li>• Managing Risk revisiting our risk register regularly</li> <li>• Ensuring the performance of our people through a structured appraisal process</li> <li>• Exercising its right to 'step in' or 'supervise' TMOs where performance is below expectation or fails to deliver VFM</li> <li>• In addition, two Area Boards receive detailed scrutiny reports of TMO performance including Quality &amp; Assurance Reviews and benchmark reports through Housemark</li> </ul>
Understand the costs and outcomes of delivering specific services and which underlying factors influence these costs and how they do so	<ul style="list-style-type: none"> <li>• Recognising that our headline social housing costs are in the upper quartile and that greater understanding of our cost drivers and the added value provided by TMO's is essential</li> </ul> <p><i>In 2016 Watmos Board's Financial Strategy sub-group will ensure costs at Watmos and the TMOs are fully captured and understood so that we can more clearly evidence the added value delivered by the TMO model and/or identify areas where more efficient or collaborative working could drive out inefficiencies.</i></p>

## 2. UNDERSTANDING OUR COSTS

### Overall

The HCA's recent publication "Delivering Better Value for Money: Understanding Differences in Unit Costs" confirmed Watmos own understanding that our costs are above the upper quartile.

**Table 2. Watmos Headline cost of social housing**

2014/15 Social Housing Cost per unit						
Entity	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)
WATMOS Community Homes	5.89	1.91	0.64	0.92	2.24	0.18
<i>Sector level data</i>						
Upper Quartile	4.30	1.27	0.61	1.18	1.13	0.41
Median	3.55	0.95	0.36	0.98	0.80	0.20
Lower Quartile	3.19	0.70	0.23	0.81	0.53	0.08

The tenant management model is not easily comparable to that of a 'standard' social landlord. Our core value of tenant management brings with it administration, governance training, personal development and capacity building costs. At Watmos we believe these costs are more than outweighed by the benefits tenant management brings to the lives of our tenants and the homes and estates they live in. The challenge the Board accepts is to provide clearer, measurable evidence of that added value.

As outlined above, Watmos works in two distinct geographic locations with homes transferred from local authority ownership almost a decade apart. This means that average costs for the organisation, whilst an important indicator of the work we need to do, do not always give the full picture.

Watmos directly employs 36 FTE staff of whom 8 are based in Lambeth. However, much of our housing management is delivered by our partner TMOs and across the Group employee numbers total 118 FTE. 29FTE of the total staff employed are based in London which has a significant impact on costs per head.

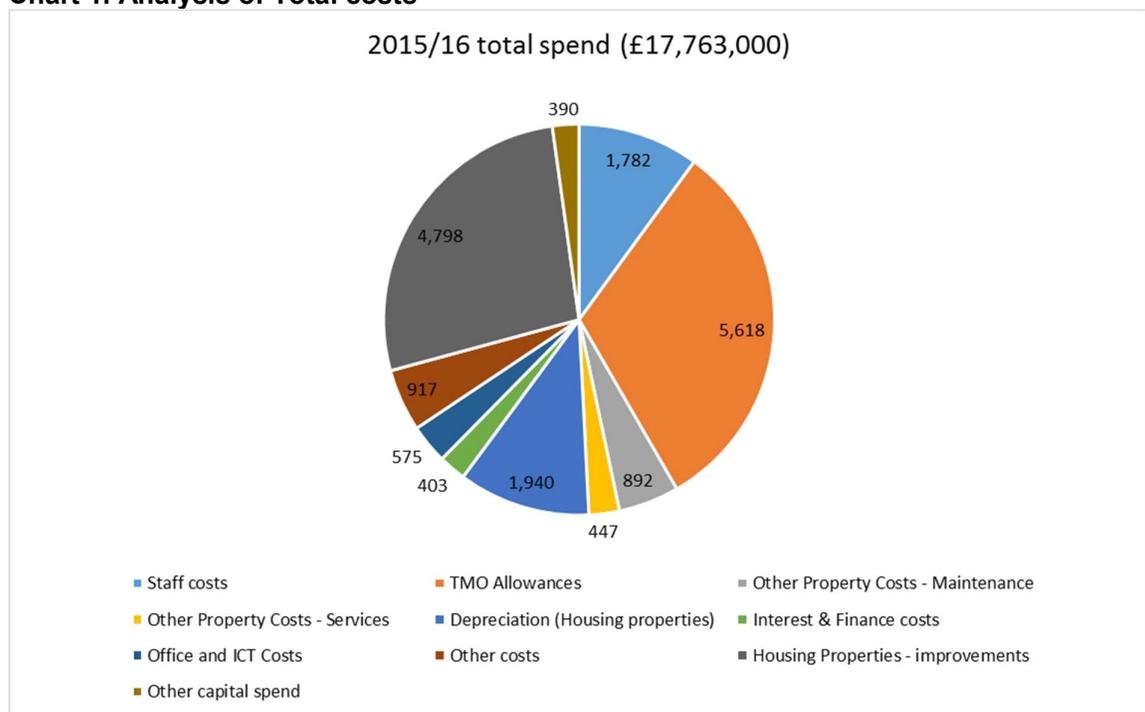
Our total costs are shown in the table and chart below.

**Table 3. Analysis of total costs**

	2015/16 £000's	2014/15 £000's	Comment
Staff Costs	1,782	1,684	Growth reflects recruitment of a procurement specialist, pension accounting adjustments and a cost of living pay ward.
TMO Allowances	5,618	5,254	Additional allowances were agreed for one TMO to replace SP funding (£130k in 15/16). £160k allowances capitalised in 14/15 were expensed in 15/16.
Property Costs – Maintenance	892	820	Costs reported in 14/15 were reduced by a one-off accounting credit.
Property Costs – Services	447	418	Electricity costs in 14/15 were offset by a one-off accounting adjustment regarding Lambeth Council.
Property Costs – depreciation	1,940	1,161	Non-cash. Reflects the significant capital investment in our homes and the introduction of FRS102
Interest & Pension	403	1,204	Interest costs are largely fixed. The favourable change relates to non-cash pension revaluations

Office & ICT costs	575	654	Annual office lease saved following acquisition of head office.
Other revenue costs (e.g. insurance, legal, audit, etc.)	917	913	Costs increased by less than inflation
Major capital works to homes	4,798	5,962	Year-on-year movement reflects delivery of the Lambeth transfer promise. Contracts are subject to competitive tender including through framework agreements to ensure VFM
Other capital investment	390	1,159	2014/15 includes the acquisition and fit out of Watmos head office
<b>TOTAL Revenue &amp; Capital Expenditure</b>	<b>17,763</b>	<b>19,229</b>	

**Chart 1. Analysis of Total costs**



The table and charts above illustrate that our greatest revenue cost is the management allowance paid to our partner TMOs. Board and the TMO committees clearly recognised this when formulating our response to the challenge posed by the government’s 1% rent reduction with the greater part of our targeted savings to be delivered by reductions in these allowances.

**Walsall**

The 1,721 homes we manage in Walsall transferred from the local authority in March 2003.

Of these homes, 1,033 are in high rise blocks (see below), 219 are low rise flats and just 469 are traditional build houses. We are the largest provider of high rise accommodation in Walsall.

The borough of Walsall is ranked as the fourth most deprived town/city in England according to the Index of Multiple Deprivation (across all IMD dimensions (ONS 2016)).

**Lambeth**

938 Watmos homes are in Lambeth in London having transferred from the local authority in 2012. Our regulator the HCA recognises that stock transfer homes within years 1 – 6 of

transfer incur additional costs and at Watmos we are continuing the process of moving away from contracts inherited from the local authority.

Of these homes, 686 are in high rise blocks, 188 are low rise flats and just 64 are traditional build houses.

85 units of our Lambeth homes provide accommodation for older people.

Lambeth is ranked 7<sup>th</sup> in England for income deprivation affecting older people and 16<sup>th</sup> for income deprivation affecting children (DCLG 2015).

The impact of our geographical diversity, the impact of London prices and in particular the maturity of our two stock transfers upon our unit costs can be seen below.

**Table 4a. Social housing costs analysed by area**

<b>2014/15 Social Housing Cost per unit</b>						
Entity	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)
WATMOS Community Homes	5.89	1.91	0.64	0.92	2.24	0.18
Walsall	3.57	1.88	0.51	0.66	0.51	0.02
Lambeth	10.16	1.97	0.89	1.39	5.42	0.49

**Table 4b. Social housing costs analysed by area**

<b>2015/16 Social Housing Cost per unit</b>						
Entity	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)
WATMOS Community Homes	5.64	2.00	0.71	0.93	1.80	0.20
Walsall	3.31	2.00	0.52	0.57	0.21	0.02
Lambeth	9.92	2.02	1.05	1.59	4.73	0.53

Tables 4a and 4b illustrate how our overall cost per unit masks clear differences in operations 'on the ground' in the two areas.

Having transferred just four years ago the Lambeth homes are subject to major investment and improvement (which is reflected in the 'Major Repairs CPU' figures tabled) and a range of other 'catch-up' repairs reflected in the 'Maintenance CPU' figure).

The significant difference in service costs reflects the different estate designs, communal spaces, district heating and other factors which will be tested and analysed in 2016 as part of the brief given to the Financial Strategy working group.

The core management cost per unit remains high in both areas for the reasons set out in this report. In 2016 Board has instructed a thorough review and analysis of Watmos and TMO costs be undertaken to substantially improve our understanding of what is driving our high costs.

### 3. OUR PERFORMANCE

Watmos Board recognises the critical importance of balancing financial performance with efficient delivery of services and maintenance of homes. The Board clearly appreciates that, for example, low maintenance spending can be an indicator of a poorly managed estate as much as a sign of VFM in the delivery of maintenance.

Watmos maintains a suite of performance indicators and also undertakes 'quality and assurance' reviews of the TMOs annually. Ultimately though the strongest assurance of the quality of our services comes from having over 100 tenants actively involved in managing the estates where they make their homes.

The Board recognises the need for greater analysis and quantifiable evidence of our strengths and weaknesses and as outlined elsewhere has commissioned a detailed analysis to be undertaken in the late autumn of 2016.

Benchmarking against peers is an area that Watmos will strengthen in 2016. We are now members of Housemark but further work is required to get maximum intelligence from the data available. The tables below show a number of key performance indicators over time and benchmarked against the HCA's global accounts.

**Table 5a. Rent loss from void properties**

	2013	2014	2015	2016
Watmos - Group	1.4%	1.1%	0.6%	0.5%
Watmos - Walsall	-	1.7%	0.5%	0.5%
Watmos - London	2.4%	0.6%	0.6%	0.6%
HCA global	1.7%	1.8%	1.7%	
HCA stock transfers	1.5%	1.7%	1.6%	

**Table 5b. Bad debts for the year**

	2013	2014	2015	2016
Watmos - Group	1.4%	0.4%	0.6%	0.4%
HCA global	0.9%	1.0%	0.8%	
HCA stock transfers	0.8%	1.0%	0.8%	

**Table 5c. Current tenant arrears at the end of the year**

	2013	2014	2015	2016
Watmos - Group	5.2%	4.3%	4.7%	4.7%
Watmos - Walsall	4.6%	4.2%	4.7%	4.6%
Watmos - London	6.0%	4.4%	4.7%	4.7%
HCA global	4.8%	4.7%	4.6%	
HCA stock transfers	4.0%	4.1%	4.2%	

Table 5a above bears out the high demand for our homes and our prompt re-let of vacancies, a reflection of the desirability of the estates our TMOs achieve as well as their responsive

approach to voids. Table 5c however, suggests that there are opportunities to improve the efficiency and effectiveness of our rent collection which remains in line with sector norms despite our higher costs and local presence.

## 4. RETURN ON ASSETS

### Overall

Watmos' objective is to provide services on a human scale. All our homes are within designated estates and managed by the local TMO, supported by our central assets team of specialists. We have a detailed knowledge of our stock including:

- Past investments
- Future repair requirements
- Long-term sustainability
- Demand
- Energy Efficiency.

To ensure cost-effective decision making around investment and regeneration decisions the Board has commissioned a detailed Asset Management Strategy. In 2016, we are refreshing this strategy with external validation to reflect our investments in the homes to date and facilitate more in-depth consideration of the long-term future of some of our homes.

As outlined above, we operate in two distinct areas with a mix of high and low rise flats and houses.

**Table 6. Stock profile**

	Lambeth	Walsall	Total
Houses	64	469	533
Low-rise flats	188	219	407
High-rise flats	686	1,033	1,719
Total	938	1,721	2,659

Each year we commission an external revaluation of our housing stock and calculate a return on assets calculated as the existing use for social housing (EUV-SH) as a percentage of the vacant market value.

**Table 7. Return on assets**

TMO	Average of 2016 Estimated VP Values (£)	Return on Assets	
		2016	2015
Avenues (Walsall)	95,145	21.3%	23.53%
Burrowes Street (Walsall)	51,432	31.9%	35.24%
Chuckery (Walsall)	52,659	30.9%	34.17%
Delves East (Walsall)	85,915	22.5%	24.91%
Delves West (Walsall)	96,674	20.2%	22.42%
Ethelred (London)	277,640	10.5%	11.05%
Leamore (Walsall)	50,293	32.9%	36.39%
Metra (London)	222,147	13.3%	14.04%
Sandbank (Walsall)	47,713	34.2%	37.83%
Thorlands (London)	214,267	13.7%	14.38%
Twin Crescents (Walsall)	66,309	28.0%	30.70%

Given the transfer of Lambeth stock at nil value and the programme of improvements underway we do not feel a more traditional calculation of return over cost is helpful but may re-visit this when the investment programme is complete.

### Walsall

In 2015/16, we invested £0.36M in improving the homes. In addition, we undertook £0.29M of cyclical and planned repair works. The EUV-SH (i.e. the net present value) of the 1,721 Walsall homes at March 2016 was £30.0M.

### Lambeth

In March 2012, Watmos acquired 954 homes from the Council with an existing use value of £13.8M at nil cost. At the same time we committed to a fifteen year £33.3M programme of improvement works including specific obligations in the first five years i.e. 'the transfer promise.'

In 2015/16, being the penultimate year of the transfer promise period, we invested £4.4M in improving the homes. In addition, we undertook £0.89M of cyclical and planned repair works. The EUV-SH (ie the net present value) of the remaining Lambeth homes at March 2016 was £27.5M.

## 5. HOW DID WE DO in 2015/16?

Board set a number of targets for 2015/16 in last year's VFM Self-Assessment and our success, or otherwise, in delivering these is tabled below.

**Table 8. Delivery of 2015/16 VFM Targets**

	Target	Delivered	Achievement
1	Efficiency Savings to be secured across the Group	✓	We negotiated a four year programme of reductions in TMO Allowances amounting to £900,000 against business plan by 2020.
2	The newly formed Procurement Team to make savings on contracts due for tender over the year.	✓	We re-tendered a range of contracts achieving savings of £186,000 over the contract lives.
3	Investing in Our People	✓	We completed a follow up liP Assessment and achieved the Gold standard across the Group.
4	There will be a focus to drive performance upwards targeting weaker areas first	✓	We supported Chuckery, Metra and Thorlands TMOs utilising our internal 'supervision' mechanism to improve their efficiency and VFM.
5	Formally assess the impact our TMOs have on the well being of our residents to demonstrate the linkages between the costs of our services and wellbeing.	✗	We postponed our STAR survey until 2016/17 so that it could fall in line with the end of the promise period. We are also working with HACT in 2016 to better understand and evidence the social value provided by our TMOs.

6	Capturing VFM	✓	We have introduced templates to capture and assess our value for money achievements throughout the organisation on an ongoing basis.
7	Work with other organisations to achieve efficiency savings through shared services and joint procurement.	•	We have made use of Government procurement frameworks to achieve procurement savings (see 2 above).
8	Migrate from a private telecommunications line to public fibre optic lines	✓	We have moved to fibre optic lines where available from providers saving £26,000 per year.
9	Continue to migrate London based offices on to our in-house systems making savings as external contracts expire.	✓	Progress has been good with London TMOs moving to in-house systems delivering savings of £7,400 per year to Watmos and further savings for the TMOs.
10	Pursue alternative energy initiatives to generate revenue and help to eliminate fuel poverty for our customers.	×	We have undertaken an Eco Options Appraisal. Further consideration will form part of our new asset management strategy. We have submitted an application to the local authority for grant funding for the District Heating scheme in Lambeth.
11	Leverage of grants towards major adaptation works	✓	The Assets Team attracted £183,500 of additional funding towards adaptation works in 2015/16.

## 6. TARGETS AND PLANS FOR 2016/17

In responding to the governments rent reduction requirement Watmos Board initiated a significant programme of cost reductions as summarised below.

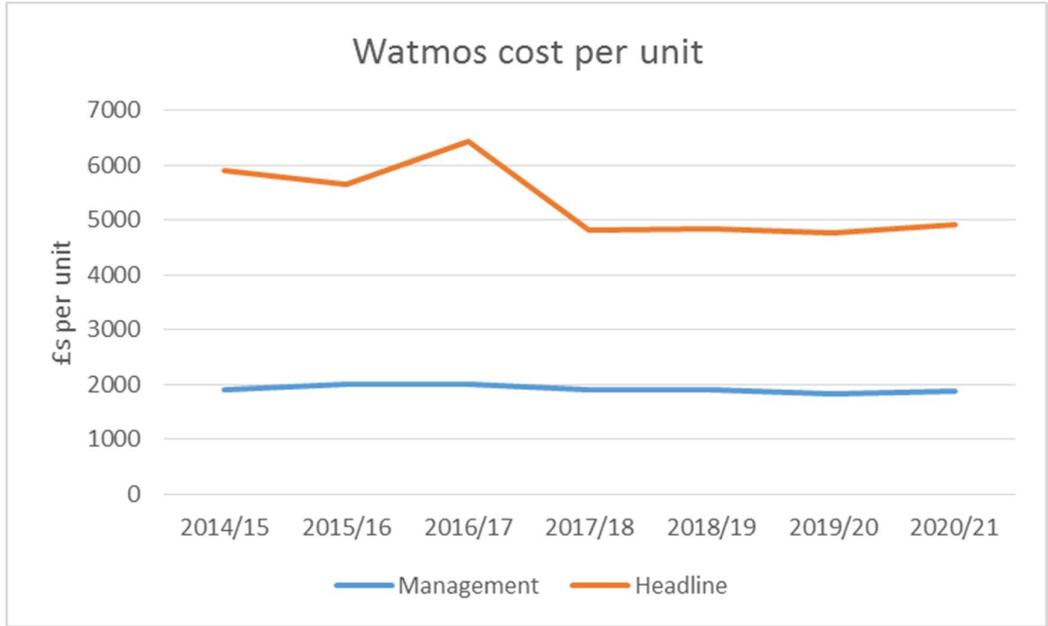
**Table 9 VFM targets for 2016/17**

	<b>Business Area</b>	<b>Saving £000</b>
1	Reduce TMO Allowances	228
2	Defer Staff cost of living increase	25
3	Reduce Central overheads	95
	<b>Total annual saving against business plan</b>	<b>348</b>

As mentioned in Table 8 above a significant proportion of the total savings will be delivered by the TMOs. In 2016 a working group of tenant board members and other colleagues are undertaking a strategic review of the TMO model looking at how meaningful efficiency gains can be delivered whilst protecting the concept of tenant management. Options to be considered will include centralising or sharing staff resources, harmonising terms and

conditions and centralising back-office functions so that TMO staff can increase their focus on tenant services.

The impact of our projected savings on the headline cost of social housing and the management cost per unit is illustrated below.



The movement in headline cost reflects the Lambeth stock improvement programme reaching the end of the initial five year phase. The ‘flat line’ in management costs represents a real term reduction once inflation is taken into account.

In 2016 the Board has instructed the executive team to undertake a detailed analysis and review of our costs both within Watmos and our TMOs. Until now large parts of our costs have been aggregated as ‘management allowances’ as outlined above (table 3, chart 1). Going forward we want to have a much clearer sight of the return those allowances provide and therefore will work with the TMOs to gain a greater insight into their costs and investment decisions. We will also review our central costs to be clearer on the cost drivers and to eliminate unnecessary processes or areas of duplication between the centre and TMOs. This work will also help us to ensure that comparative benchmarking is more useful and can better inform our focus for VFM.

**7. SOCIAL VALUE AND ENVIRONMENTAL IMPACT**

The unique structure of Watmos and our enshrined commitment to tenant management adds value at every stage. As outlined in section 1 of this statement we work with our 100+ tenant board members, TMO committee members and other volunteers helping them to develop skills that will last a lifetime.

Our estates are places that people want to live with lower levels of crime and anti-social behaviour than surrounding neighbourhoods and a real sense of community. Our TMOs have transformed the often neglected properties they took over from local authority management, made tangible investments such as community centres and countless intangible improvements to the wellbeing of tenants.

The Board is confident that a significant amount of work is undertaken locally by the TMOs that is beyond the core duty of a landlord and that this has a hugely positive impact on the lives of our tenants. Nevertheless, the Board also now recognises that this added value needs to be more readily captured and evidenced. This will be done through a triangulated approach:

1. Annual Review meetings with each TMO to identify initiatives being undertaken
2. A detailed cost analysis exercise as outlined above and informed by point 1
3. External (HACT) validated evaluation of social value including a happiness/wellbeing survey.