

## **Value for Money Self Assessment 2016/17**

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 tenant managers when setting up their original organisations.

Cost control, and relative levels of spending compared to others are important 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.

### **Resources**

For Watmos to be effective in supporting tenant management and delivering value it's important that our resources are deployed effectively. Our Group Board seeks to do this through the following:

- 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
- Annually reviewing and approving a long-term financial plan to underpin the Corporate Plan
- Monitoring delivery of the key objectives of the Corporate Plan
- Allocating resources through the annual budget cycle
- Undertaking stress testing and risk reviews
- Training and developing board members, tenant volunteers and staff

In 2016 Watmos Board set-up three sub-groups to thoroughly reassess and challenge our current approach and methodology in three key areas. One of these groups undertook a detailed review of the current TMO operating model; one is undertaking a detailed review of our Financial Strategy whilst the third is actively seeking opportunities for Watmos to develop new homes in London and Walsall.

In particular, 2016/17 was year two of a four year programme of TMO management allowance reductions. This has been challenging for our partner organisations but they have risen to that challenge by reviewing and changing working practices and beginning to work more closely together to drive down costs.

### **Understanding Our Costs**

When the HCA published "Delivering Better Value for Money: Understanding Differences in Unit Costs" this confirmed Watmos own understanding that our costs are near the top of the upper quartile.

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 (see outcome of HACT research below).

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 31 FTE staff of whom 7 are based in Lambeth. However, much of our housing management is delivered by our partner TMOs and across the Group employee numbers total 108 FTE. 24FTE of the total staff employed are based in London which has a significant impact on average unit costs.

**Table 1. 2015/16 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	5.64	0.99	0.84	1.73	1.80	0.28
Walsall	3.31	0.96	0.66	1.42	0.21	0.06
Lambeth	9.92	1.03	1.17	2.29	4.73	0.70

**Table 2. 2016/17 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	5.49	0.84	0.90	1.58	1.87	0.30
Walsall	3.57	0.82	0.70	1.33	0.67	0.05
Lambeth	8.98	0.89	1.25	2.04	4.06	0.74

Nevertheless the published unit cost data influenced some important work, led by the Financial Strategy Working Group, to better understand the component elements of our headline cost and the key drivers of those costs. Following the first stage of that work we have re-stated, with our auditor's agreement, some of our costs and reclassified 86 properties as Housing for Older People. Whilst this hasn't reduced our total cost it has identified that one of our key cost areas is the administration and delivery of routine repairs and this will be the focus of further review and challenge in 2017/18.

<b>Table 3. Analysis of total costs</b>	<b>2016/17 £000's</b>	<b>2015/16 £000's</b>	<b>2014/15 £000's</b>	<b>Comment</b>
Staff Costs	1,695	1,782	1,684	Cost decrease from 2015/16 reflects reduced staff levels mainly from IT department restructure and temporary employment of a procurement specialist coming to an end. Cost of living increases were not awarded.
TMO Allowances	5,305	5,618	5,254	Allowances reduced in 2016/17 in line with agreed savings with the TMO. 2015/16 allowances included replace SP funding (£130k in 15/16) and £160k allowances previous capitalised in 14/15.
Property Costs – Maintenance	973	892	820	Additional periodic electrical testing works and one off urgent roof fan repairs carried out in 2016/17.
Property Costs – Services	457	447	418	Costs are broadly similar to 2015/16. Electricity costs in 2014/15 were offset by a one-off accounting adjustment regarding Lambeth Council.
Property Costs – depreciation	2,138	1,940	1,161	Non-cash. Reflects the significant capital investment in our homes and the introduction of FRS102.
Interest & Pension	574	573	541	Interest costs are largely fixed.
Office & ICT costs	474	575	654	Mainly due to backdated partial exemption VAT claimed for current and prior years.
Other revenue costs	679	917	913	2015/16 includes one off costs for increased legal costs & provisions.
Major capital works to homes	4,940	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	31	390	1,159	2014/15 includes the acquisition and fit out of Watmos head office and 2015/16 includes fit out costs of Lambeth central team office.
<b>TOTAL Revenue &amp; Capital Expenditure (excluding pensions)</b>	<b>17,266</b>	<b>17,932</b>	<b>18,566</b>	
Pension Revaluations	1,324	(169)	663	The adverse change relates to non-cash pension revaluations.
<b>TOTAL Revenue &amp; Capital Expenditure</b>	<b>18,590</b>	<b>17,763</b>	<b>19,229</b>	

## Benchmarking

Watmos subscribes to the Housemark benchmarking service. For a number of years we have benchmarked ourselves against a small number of other community based organisations and we have done so again this year. We had intended to review our benchmarking group but have deferred doing so pending anticipated changes in how housing associations VFM is measured including introduction of the 'sector scorecard.'

The table below sets out how our key costs compare to our peer benchmark group.

Efficiency Summary for WATMOS Community Homes						
Business activity	Cost KPI	Cost KPI Quartile		Quality KPI	Quality KPI Quartile	
		WATMOS Community Homes (2016/2017)	WATMOS Community Homes (2015/2016)		WATMOS Community Homes (2016/2017)	WATMOS Community Homes (2015/2016)
Overheads	Overhead costs as % adjusted turnover			Overhead costs as % direct revenue costs		
Major works & cyclical maintenance	Total CPP of Major Works & Cyclical Maintenance			Percentage of tenants satisfied with the overall quality of their home (GN & HfOP)		
				Percentage of dwellings that are non-decent		
Responsive repairs & void works	Total CPP of Responsive Repairs & Void Works			Percentage of tenants satisfied with repairs and maintenance (GN & HfOP)		
				Average number of calendar days taken to complete repairs		
				Average re-let time in days (standard re-lets)		
Housing management	Total CPP of Housing Management			Percentage of tenants satisfied with the service provided (GN & HfOP)		
				Percentage of anti-social behaviour cases resolved successfully		
				Current tenant rent arrears as % of rent due		
Estate services	Total CPP of Estate Services			Percentage of tenants satisfied with their neighbourhood as a place to live (GN & HfOP)		

Quartile key							
	Upper Quartile	Middle Upper	Median	Middle Lower	Lower Quartile	N/A	No Data
Valid dataset							
Small dataset							

Our peer group comprises Community Gateway, Greenfields Community Housing, Phoenix Community Housing, Pioneer Group, Riverside and Rochdale Boroughwide Housing. Because this group is quite small Housemark are able to provide only limited KPI data and we have therefore included benchmarking against the national benchmark also.

Efficiency Summary for WATMOS Community Homes						
Business activity	Cost KPI	Cost KPI Quartile		Quality KPI	Quality KPI Quartile	
		WATMOS Community Homes (2016/2017)	WATMOS Community Homes (2015/2016)		WATMOS Community Homes (2016/2017)	WATMOS Community Homes (2015/2016)
Overheads	Overhead costs as % adjusted turnover			Overhead costs as % direct revenue costs		
Major works & cyclical maintenance	Total CPP of Major Works & Cyclical Maintenance			Percentage of tenants satisfied with the overall quality of their home (GN & HfOP)		
				Percentage of dwellings that are non-decent		
Responsive repairs & void works	Total CPP of Responsive Repairs & Void Works			Percentage of tenants satisfied with repairs and maintenance (GN & HfOP)		
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Housing management	Total CPP of Housing Management			Percentage of tenants satisfied with the service provided (GN & HfOP)		
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The Housemark data reflects our own understanding that our costs are high compared to traditional HAs. As outlined below, research by HACT and Simerica has begun to quantify the measurable benefit that our model provides to tenants and thereby to the exchequer.

## Return on Assets

2016/17 was the fifth and final year of the ‘transfer promise’ period following the acquisition of 957 homes from Lambeth Council in March 2012. Since that time we have invested £24.7M in the Lambeth homes exceeding the tenants promise whilst also continuing to invest in Walsall.

Our stock was externally valued at 31 March 2017 and the existing use valuation (EUV-SH) has increased from £57.5M at March 2016 to £73.3M reflecting the investment we have made in the condition of our stock. This compares to total net book value of the capital investment in the acquisition and refurbishment of our homes of £44.8M.

Watmos’ return on investment was 5.71% based on group surplus of £2.56M and net property cost of £44.8M. This compares to 2.52% in the HCA Global Accounts.

The Board’s development working group is exploring opportunities to develop new homes on and around our existing estates. A number of sites have been identified and are progressing to planning application stage. We are also exploring options to acquire stock from other RPs

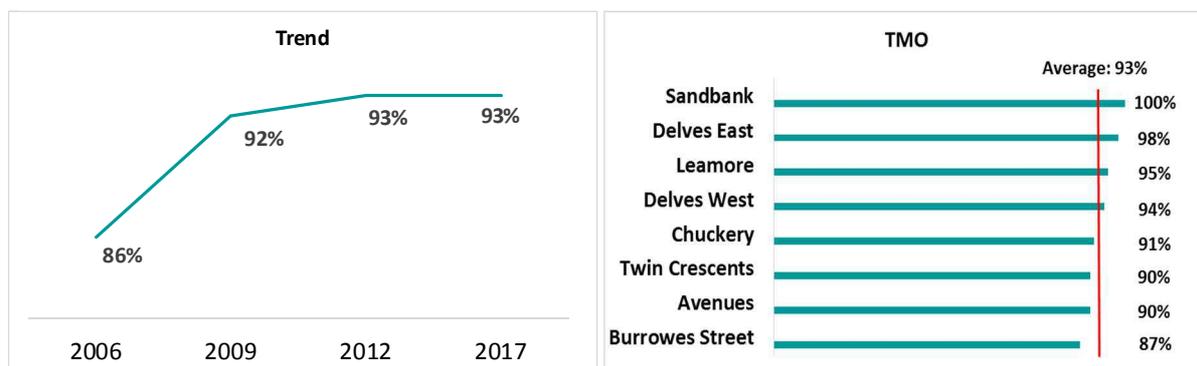
and RTB 'buy backs' and this will be reflected in the next iteration of our financial plan (subject to lenders approval).

### Performance and Scrutiny – improving VFM

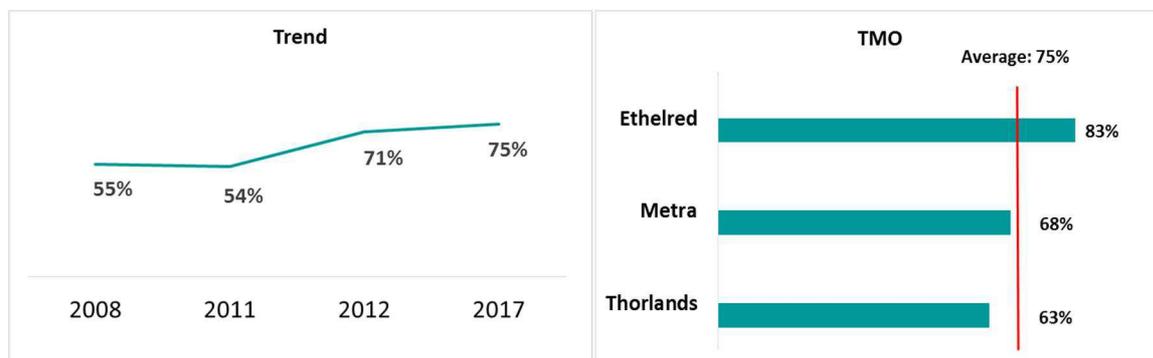
Watmos performance is scrutinised by our Lambeth and Walsall tenant majority Area Boards on behalf of the Group Board. The Area Boards receive regular performance reports allowing a 'peer review' of the outcomes of each TMO as well as centrally provided services.

Watmos engaged MEL Research to undertake a Star Survey which achieved return rates of 54% (Walsall) and 37% (Lambeth) resulting in confidence intervals exceeding that specified in HouseMark guidance.

#### Walsall – overall satisfaction with service



#### Lambeth overall satisfaction with service



The survey (which is available on our website) shows that in Walsall our TMOs continue to deliver top quartile services. In Lambeth satisfaction services are not yet as high but the direction of travel since residents became Watmos tenants in 2012 is striking.

Table 4. Star Survey	Top quartile	WATMOS	Walsall	Lambeth
Overall Satisfaction	90%	85%	93%	75%
Quality of Home	89%	85%	90%	78%
Neighbourhood	88%	85%	86%	84%
VfM Rent	88%	82%	86%	76%
VfM Service Charge	78%	72%	79%	63%
Repairs and Maintenance	87%	81%	91%	67%
Listen to Views	77%	76%	83%	68%

When assessing our performance overall against national benchmarks our geographic split can tend to distort results at first glance. When compared to regional benchmarks, Watmos is in the top quartile for five of the six measures in Walsall and three of six in London. During 2016 the Boards TMO Model working group reviewed the operating model of our TMOs and proposed a number of changes which will help to strengthen our operating model, improve devolved management arrangements, improve efficiency and mitigate exposure to risks.

Watmos engaged HACT and Simetrica to survey our resident’s satisfaction and wellbeing. In particular we wanted to evidence how being a Watmos tenant impacted on wellbeing relative to being a tenant of a ‘standard’ housing association. This research (which is published on our website) found that the wellbeing experienced by a Watmos tenant relative to a control group could be ascribed a monetary value of £5,783.

*“We can say that holding a number of factors constant, individuals with similar characteristics who live in WATMOS housing have higher wellbeing than those living in other social housing, and that this higher wellbeing is worth £5,783 to the average resident in monetary terms.”*

Our Board also set three specific financial targets to reduce costs in 2015/16 in pursuit of better value for money and the table below sets out how this has been achieved.

<b>Table 5. VFM Achieved 2016/17</b>	<b>Target Saving £000</b>	<b>Saving achieved £000</b>	<b>Comment</b>
TMO Allowances	228	215	Reduced allowance from April 2016.
Defer staff cost of living award	25	21	No pay award given.
Reduce central overheads	95	55	Posts deleted from structure
		21	Re-procurement and other savings
		15	VAT partial exempt negotiation
<b>Total annual savings</b>	<b>348</b>	<b>327</b>	

### Plans for further VFM

Watmos’ tenant led Board have put in place a four year-programme of cost reductions in order to improve our value for money. The table below sets out how performance in 2016/17 and the approved budget for 2017/18 have put us ahead of that target.

<b>Table 6 VFM Targets 2017/18</b>	<b>Total saving required by 2017/18 £000</b>	<b>Ongoing Budgeted Saving £000</b>	<b>Description of Saving</b>
TMO Allowances	604	215 388	Year 1 reduction Year 2 reduction
Defer staff cost of living award	50	46	Two years pay rise cost avoided
Reduce central staffing	25	59	Team restructures

Reduce central overheads	95	98	Re-procurement and refocusing of budgets
Cyclical maintenance saving	75	75	Budget reduction and re-profiling. External Stock Condition Survey.
Major works saving	100	100	
<b>Total cumulative saving per year</b>	<b>949</b>	<b>981</b>	

In addition to delivering the above monetary savings in 2017/18 we will:

- Continue to improve our understanding of costs and cost drivers and their relationship to TMO Allowances,
- Review the capture of service charge and leaseholder costs to ensure these are recovered correctly
- Commence a three-year programme of Service Improvement Plans.