Social hearts, business heads: new thinking on VFM for housing associations

Steve Smedley
with contributions
from **Will Perry** and
Samantha McGrady

HouseMark
Performance Improvement

NATIONAL HOUSING FEDERATION

About this publication

This publication is intended to help those people, particularly board and executive team members, who are concerned with developing their approach to value for money or, as you may prefer to call it, business effectiveness. It is structured as follows:

Foreword

With the British economy in the doldrums and social housing grant slashed, the pressures on housing associations are greater than they have ever been. At such a time, it is of critical importance to extract every last ounce of value from whatever resources the sector can command. That is the underlying theme of this publication, which has been jointly produced by the National Housing Federation and HouseMark.

As boards and senior managers strive to balance the crucial factors of cost and social benefit, the guide addresses the decisions they face and sets out possible approaches and key questions. This represents a far more rigorous and demanding approach to the issue than is implied by the altogether less ambitious phraseology of the regulatory framework. Indeed, this publication says relatively little about the regulator's VFM requirement because although clearly it is important that associations adopt an approach that is consistent with regulation, the sector can and should hold itself to a higher standard.

I should like to extend special thanks to the chief executives who not only contributed to shaping this publication but also submitted their own views on the subject (attached as Appendix 1). It is invaluable to have their considered thinking on a tough subject collected in one place.

David Orr
Chief Executive,
National Housing Federation

1. Introduction

The housing association sector exists to produce social value. Its purpose and core business is to improve people's lives by providing homes for those who need them and a range of services aimed at maximising enjoyment of the home and local area and enhancing independence and the quality of life. Social value, therefore, is not limited to the 'added value' community activities in which many associations engage; it refers to the total output of the association's business.

Keith Exford
Chief Executive
Affinity Sutton

The pursuit of VFM, sustained financial strength and capacity are embedded in the management culture of Affinity Sutton.

As a business for social purpose, we see it as vital that we operate as efficiently as we can so as to create the capacity to provide good services for current residents, develop at least 1,000 new homes a year and invest in the well-being of the communities in which we work. Although we have a good track record in this regard, we plan to build upon our achievements in order to support our mission of 'helping people put down roots'.

The nature of the value produced differs from association to association, evolving over time, as a response to specific issues associated with people, place and situation, including the needs of a range of stakeholders and the demands of ever-changing operating conditions. If those homes and services were not produced, the impact on individuals, communities and society would be significant, even catastrophic.

Paul Fiddaman
Chief Executive
Cestria Community Housing

For organisations like Cestria, with a strong community focus, the current environment is likely to place great hardship on people.

We believe that it is critical to the success of our communities that we are able to focus resources on supporting people through the difficult times ahead. This takes the form of training and employment, financial literacy and advice, diversionary activities for young people, greater focus on a high quality physical environment, energy efficiency, health and well-being, development of community capacity – the list goes on.

To enable us to invest in activities to develop our communities, we need to ensure that our core services are delivered as cost efficiently as possible. This requires a whole-organisation approach where VFM is a key cultural consideration.

For effective social businesses, success should not simply be about the production of social value; it should be about delivering as much of it as possible. This means maximising delivery against the association's social objectives, or, in other words, providing value for money (VFM). Efficiency and effectiveness serve no useful purpose unless the freed capacity produces more social good.

Jon Lord
Chief Executive
Bolton at Home

VFM is not an end in itself. It has to be a given, regardless of what you do as an organisation, that you seek VFM as a means of achieving more. VFM is not about going for the lowest cost as it has to reflect benefit versus cost. Therefore you may quite legitimately go for the most expensive option because it brings added value.

VFM is critical to what we do in the current economic climate and it needs to focus on the systems we put in place to ensure we meet or exceed our social benefits as an organisation.

Since value refers to the social value a given association is in business to produce, associations need to be clear about their social objectives and do the right things to ensure those objectives are achieved. It requires a social heart and a business head – and an acceptance that the two are completely compatible. Nor should 'heart' be construed as fluffy sentimentality. Rather it is the unswerving determination to do social good. Being practical, hard-headed and business-like is the means to achieving and maximising the sector's social ends. Regardless of what the regulator or government say about VFM at any given time, there is an enduring and overriding VFM imperative that is and should be rooted in the sector's culture and social ethos.

Joe Chambers
Chief Executive
Soho Housing Association

Board and shareholders should be defining and measuring the organisation against its objectives.

It is not possible to determine whether money has been put to good use unless you know what outcome you are hoping for.

Housing associations should have clear aims and objectives against which they measure themselves, including social aims such as getting communities back to work. Once these are set out the organisation should then work hard delivering against them with all the resources it can safely muster.

Value is subjective to the organisation but that does not mean it cannot be measured. Value has to be about what are you trying to achieve measured against what you can afford and your organisation's view of the relative importance of that goal.

soho housing

If associations are to continue to deliver on their social purpose in the current operating environment, being an effective business – or achieving VFM – is critical to their success. VFM taps into the latent capacity that exists in all organisations, releasing the resources that make the difference between thriving and surviving, and ultimately business failure. Leadership, empowerment, strategy and a preparedness to make difficult decisions are critical.

Mick Kent
Chief Executive
Bromford Housing Group

So what's VFM all about then? As our finance team would say, we just need to 'release our inner accountant'. Picture now the Battle of Trafalgar. Lord Nelson takes on and beats a combined French/Spanish fleet. In the face of defeat, the French admiral Villeneuve said of the British force, 'Every captain was a Nelson.'

Nelson built a winning team through delegation and leadership skills. He trusted and had confidence in his people. He worked on action plans and strategy so that when the time came, delegating full responsibility to each captain, the French/Spanish fleet was defeated by not one but 20 Nelsons.

We've been developing our own Nelsons through our Living Leadership academy. Our leaders have received a wide range of coaching from experts, including 'embedding commercial thinking', and we now have over 300 skilled and empowered leaders who have helped us to 'not just survive but thrive' to the extent that our operating margin on continuing operations for 2011/12 will exceed 37%. See what I meant about releasing your inner accountant?

Bromford Group

The challenges are considerable and are unlikely to ease significantly in the short to medium term:

- reduced public spending, together with expensive private finance, limits development and improvement aspirations
- welfare reform is adversely affecting tenants' lives by reducing their incomes and therefore impacting on their ability to pay rents and service charges, resulting also in a potential threat to associations' revenue
- demand for sub-market priced housing and association services is increasing as more people require assistance
- there is a need for the sector to demonstrate its value and uniqueness and assert its contribution to social improvement
- there is an ongoing rise in customer expectations.

This new reality has not been lost on the regulator. Although social housing regulation is being significantly reduced in general, the focus on[1] VFM is increasing – it will now be actively regulated.

Carol Matthews
Chief Executive
Riverside Group

VFM can only be seen within the context of the overall strategic objectives of an organisation.

Considered in this way, VFM actually becomes the delivery of an organisation's business strategy in the most cost-effective way possible. What prevents this from being delivery 'on the cheap' are the objectives themselves. If they are broad enough and genuinely represent the strategy of the organisation, then the cost-effective delivery of them will, by definition, deliver VFM.

A balanced set of objectives might include delivering quality core services, building more homes and delivering more for customers through 'added value' initiatives such as employment and financial support. So VFM is about the cost-effective delivery of the things we must do, in order to create the financial capacity to do the things we (and our customers) want to do.

Riverside

The regulator's latest manifestation of VFM is different to previous versions. Firstly, it does not focus solely on improving the VFM of services; instead, it requires each association to maximise value in the round – from all the resources at its disposal, including housing assets. Secondly, the regulator is dispensing with a 'one size fits all' approach and is effectively saying to associations: define VFM for yourselves, based on your purpose, and then deliver it.

This, then, is an opportunity for associations to adopt a far more organic approach to VFM and fully integrate it with the delivery of business objectives, whereby success is not simply measured in fiscal terms but with reference to associations' desired social outcomes. In many ways, 'VFM' seems an inadequate and dated term for what may be better described as 'business effectiveness'.

It is also an opportunity to improve how the sector tells its story about what it does and achieves – a compelling story about the difference made to people's lives.

Tony Stacey
Chair of the Placeshapers Group

Achieving VFM is not to us just about demonstrating that we are more financially efficient and compare well against others in this respect.

Crucially, it is also about demonstrating that the social return that derives from our neighbourhood and community investment activities is a legitimate VFM outcome.

We work at the heart of our communities and deliver considerable benefits beyond our traditional landlord services. Many of these are difficult to quantify but without doubt they contribute extensively to the government's welfare agenda and some clearly deliver significant cash savings. We have numerous examples of how carefully targeted, well-managed social investment can produce a powerful multiplier effect that levers in other resources and makes every pound go further.

Tony Stacey is also chief executive at South Yorkshire Housing Association

syha South Yorkshire Housing Association

1 Since April 2012 the Homes and Communities Agency (HCA) has taken responsibility for the regulation of social housing. The basis for its approach to regulation, including the VFM standard, is set out in *The regulatory framework for social housing in England from April 2012:* http://www.homesandcommunities.co.uk/ourwork/regulatory-framework

Delivering VFM: running an effective social business

2. Delivering VFM: running an effective social business

We consider here the approach required to maximise VFM in the context of the sector's social purpose and operating environment. Because the HCA VFM standard takes its cue from these contextual factors, we believe our thinking to be consistent with regulatory requirements, although that was never our starting point. Instead, drawing on the views of our industry leaders in section 1 and Appendix 1, we offer a sector perspective on how you might deliver VFM (or business effectiveness, as you may prefer to call it) to stimulate your own thinking.

Before considering VFM, let us take money out of the equation and consider value in a social housing context.

2.1 Producing social value

Housing associations are social businesses that exist to produce social value in a broad sense. Social value is not limited to the community activities (or 'added value') in which the association may engage.

The kind of social value the association produces is determined by the board and executive over time, as a response to a set of specific issues associated with people, place and situation. The association's purpose is influenced by the needs of a range of stakeholders, such as tenants, potential tenants, local authorities and government. The operating environment, notably funding arrangements and government policy, also shapes the housing association product.

Like any business, associations spend on **inputs** such as physical assets (houses) and human assets (staff or procured services) to deliver **outputs** that produce **outcomes**, eg:

- properties of different tenure (output) for those who need a home (outcome)
- housing services (output) aimed at maximising enjoyment of the home and local area whilst maintaining the value and useful life of housing assets (outcome)
- provision of care and support (output) to enhance independence and quality of life (outcome)
- community services (output) to enhance well-being and life chances (outcome).

These outcomes (and sometimes the outputs too) represent the social value the board is trying to achieve. The creation of social value need not be limited to the outcomes that flow from housing assets and the provision of services. Associations procure goods and services from others which may yield additional social value as well as represent a fair price - for example, by supporting the local economy through the use of local labour and the provision of training. Indeed, the Public Services (Social Value) Act 2012 will require housing associations, as part of the procurement process, to consider whether an improvement of the economic, social and environmental well-being of an area can be achieved, as well as having regard for the financial efficiency of expenditure.

Inputs are paid for by income, from rents and service charges, which also services the debt associated with building and improving homes. Ideally, a surplus is generated, which may be reinvested in the business to produce more social outcomes (see diagram 1). This is the point of VFM in the social housing sector – to deliver more by reinvesting surpluses or improving service outcomes.

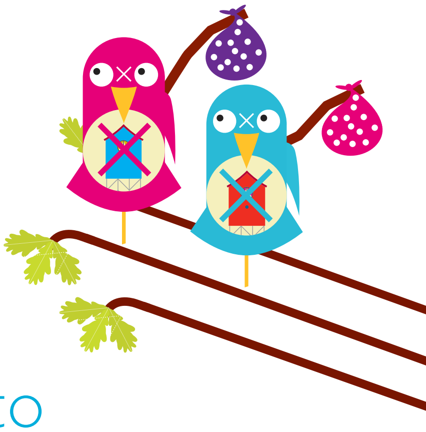
If these social outcomes were not produced, the impact on individuals, communities, other services and wider society would be significant and corrosive. The social housing movement was, after all, a response to the failure of markets and governments to meet need.

But whilst associations undoubtedly provide value, it does not follow that they provide VFM. Like any system of production, the delivery of social value is not always as economical, efficient and effective as it might be.

Diagram 1
Producing social value

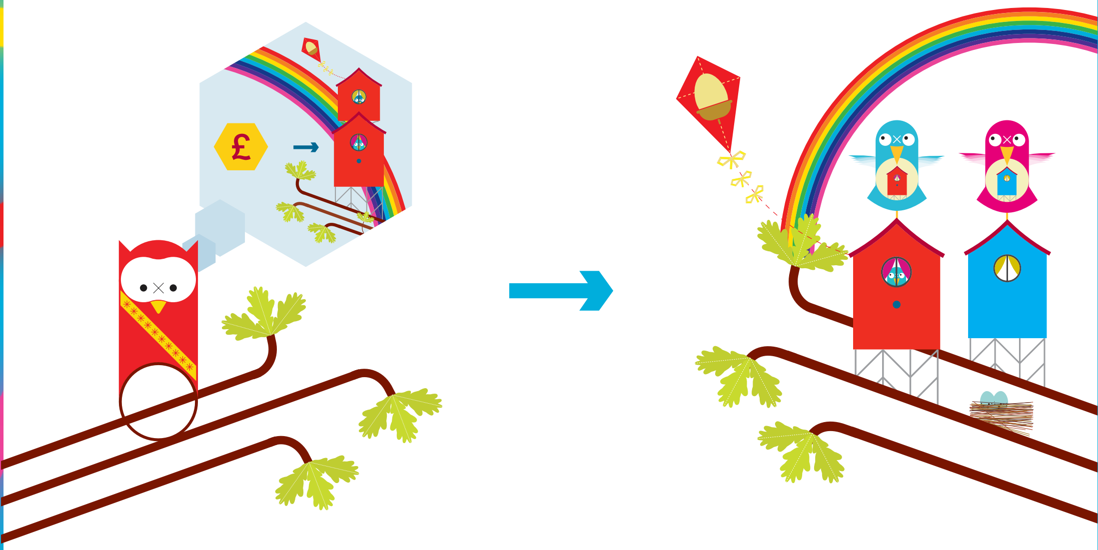
The business of social housing is a story that starts with a purpose

Something is needed and somebody is prepared to do something about it



Money is borrowed to acquire a house that becomes a home

Input: cost of house
Output: a house (physical asset)
Outcome: a home, satisfied tenant = social value



But the story (and outcomes) don't stop there

- investment in development and regeneration brings economic and social benefits
- the family have a base to build their lives and make an economic and social contribution
- construction or improvement brings environmental benefits.

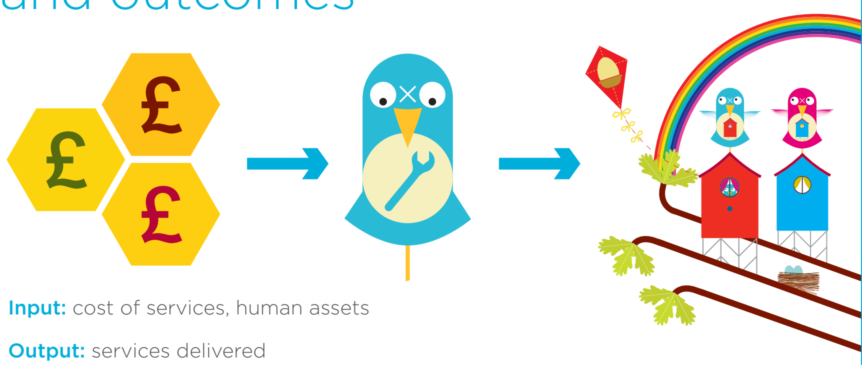
It's all social value!

Social value doesn't end with the provision of a home

Human assets deliver services to provide more social value:

- tenants get the most out of their home and neighbourhood
- maintaining and improving the home enhances the value of the asset to existing/future tenants and landlord
- support and care provided for those who need it
- community services enhance well-being
- knock-on benefits go to other local services and wider society.

So in terms of inputs, outputs, and outcomes

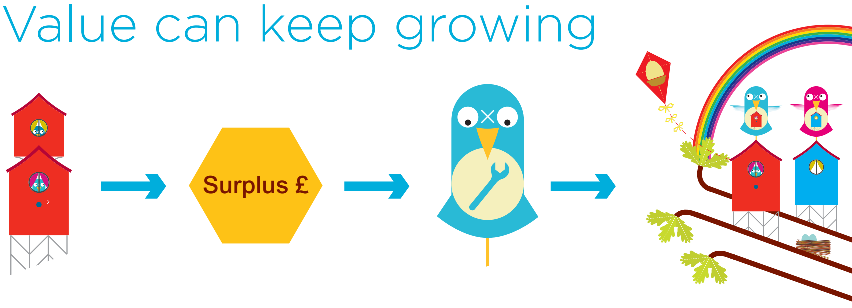


Input: cost of services, human assets

Output: services delivered

Outcomes: social value - eg satisfied tenants, good places to live, independence, better quality of life, a valuable social asset

Value can keep growing



Costs are met by service charges and rent, which also pays the debt incurred in building and improving homes. What is left – surplus – can be reinvested in the business to add more social value:

- **input:** surplus
- **output:** even more houses and better services
- **outcome:** even more homes and lives improved

The social housing story is simple and compelling – it is about using physical and human assets (inputs) to provide homes and services (outputs) that produce social value (outcome). But it doesn't necessarily mean that value is being optimised, that's what VFM is about.

2.2 Maximising social value: delivering VFM

Driven by the sector's ethos, delivering VFM is synonymous with running an effective social business. As such, success is not simply about producing social value; it is about harnessing all available resources to maximise the production of social value, leaving no room for complacency or coasting. The maximisation of social value should underpin the association's business plan and associated financial plan. Service delivery plans should set out how value will be both delivered and maximised, incorporating any VFM improvement action plans.

Business effectiveness should be evaluated by assessing the extent to which the business plan and longer-term objectives are achieved, and therefore incorporate the extent to which value creation has been maximised. VFM and business effectiveness are the same thing.

It may be that in the future the term 'VFM' will become unnecessary; effective social businesses will by their very nature achieve VFM in everything that they do. Until we reach that point, VFM will endure as a convenient term for referring to those behaviours, practices and processes that seek to drive economy, efficiency and effectiveness, as well as to the specific regulatory requirement to demonstrate business effectiveness to others.

The operating environment described in section 1 has thrown the need for business effectiveness into sharp relief. Many associations recognise that they need to be more business-like to increase (or even maintain) the creation of social value.

On the basis that running an effective social business and VFM are the same thing, diagram 2 suggests an approach to the optimum delivery of social value that we hope will help you with your own approach.

Diagram 2 Optimising social value: achieving VFM and business objectives

Step 1: Purpose – the basis for an organisational definition of VFM

The starting point for delivering VFM (or business effectiveness) is to define it in a way that is meaningful to the housing association's board, staff, tenants and key stakeholders. It needs to be rooted in purpose because the value in 'VFM' refers to the social value a given association is in business to produce.

As discussed at 2.1, associations have a range of objectives: the provision of homes for those who need them, housing services aimed at maximising enjoyment of the home and local environment, care and support to live independently and community services to enhance well-being and life chances.

Ultimately, the provider's VFM definition is likely to amount to the delivery of its social objectives in the most cost-effective way possible, which requires:

- doing the right things – a business strategy that focuses resources on the right activities
- investing in the right physical and human assets at the right price
- doing things right – efficient and effective delivery
- evaluating success – checking that the right outcomes have been delivered, what has been learnt and reinvesting gains to achieve more social value.

Unpacking what this means in practice for a given association serves as the basis for a VFM strategy and action plan, if required.

Nick Atkin,
Chief Executive
Halton Housing Trust

We define VFM in the following terms:

- the cost that we are prepared to pay for the quality of service that we want to deliver
- the right service to the right people at the right time
- a combination of cost, quality and added value.

Through VFM we seek to achieve:

- resources directed towards the organisation's key priorities and objectives
- a balance between cost and performance
- customer satisfaction.

Halton Housing Trust

However, the association's objectives, and therefore approach to VFM, do not exist in a vacuum. They are influenced by a range of factors associated with people, place and situation. This requires a reconciliation of the value perspective of a range of stakeholders, such as existing tenants, potential tenants, local authorities, government, taxpayers and funders, and accordingly 'trade-offs' between competing priorities across activities.

This is arguably one of the biggest challenges for associations. When you shop it is fairly straightforward to define VFM and make judgements from your own perspective: you compare cost and quality, where quality is based on criteria you feel are important. It is not so simple when the definition and judgement, although your own, must reflect the appropriately weighted value perspectives of others, and they concern a product as complex and diverse as social housing and associated services.

An understanding of the operating environment is also significant in shaping objectives:

- knowledge of existing and potential client group (profiling and demographic information), geography and other local contextual issues
- funding arrangements, government policy, statutory and regulatory requirements.

It is the board's job to navigate these competing pressures intelligently and provide clarity about purpose and appetite for risk, whilst understanding how the operating environment might enhance or limit ambition. Without such clarity, the association will not be able to determine if it is delivering VFM, nor indeed if it is delivering on its purpose.

Kevin Dodd
Chief Executive
Wakefield and District Housing

Whilst the elimination of waste, efficiency improvements and behavioural change are prerequisites of any well-managed business, the ability to meet the expectations of its stakeholders is essential too. The delivery of long-term VFM benefits also requires accountability, transparency and evidence of value-added considerations.

Consideration of VFM is being embedded in decision making within WDH. Measurements will be developed, in-house and with others, that will promote and evidence social responsibility accounting (SRA) that will eventually become as robust as our audited financial statements.

wdh Wakefield and District Housing

Step 2: Right activities

The board needs to demonstrate through the business planning process and associated use of resources that it is investing in the right things – business activities – to achieve its objectives:

- the right mix of activities or products, eg social rented homes, affordable homes, shared ownership, supported housing, care, community activities, services to tenants, the public or other organisations
- the right allocation of resources between these activities.

Common dilemmas facing boards include:

- apportioning resources across the delivery of new homes, improvement and 'greening' of existing homes, improving or maintaining services to existing customers, community activities
- getting the cost/quality balance right
- consideration of the financial and social benefits of life-time versus fixed-term tenancies and higher versus lower rents.

Engaging tenants in the determination of priorities is in itself consistent with VFM, as it determines what tenants want, helps reconcile tough choices and enables them to 'buy in' to a course of action. For most associations, tenants are the principal beneficiaries of core and added-value services and are also the chief source of income. Their involvement in deciding 'where the money goes', setting service standards and scrutinising outputs and outcomes is therefore essential. For tenants to succeed in this role it requires a commitment from associations to make involvement meaningful whilst building the capacity of tenants to engage effectively.[2]

Mark Henderson
Chief Executive
Home Group

Deficit reduction, fiscal consolidation or VFM – these things all have very different names but to our customers and clients they simply mean delivering more for less. It's certainly not a backdrop anyone at Home Group would have wanted to see but it has one noticeable positive. It has significantly changed the terms of debate. How we spend customers' or taxpayers' money has always been important but now it has an added edge.

At Home Group we have made a fundamental commitment to transparency – we have found that the additional openness has brought renewed vigour and focus.

Doing the right things (or optimising the use of resources) requires a clear strategy that, mindful of risk and competing priorities, justifies the business case for investment in a specific activity or initiative. Intelligent business decisions cannot be made unless boards understand the cost and anticipated value – the financial, social and economic, environmental and service performance outcomes – of a suggested course of action. And later, when assessing business effectiveness/VFM, the anticipated outcomes provide the basis for measuring success. To better understand what we mean here, see diagram 3.

2 The National Tenant Organisations published *Tenant Panels: Options for Accountability* in March 2012. In it they make the case that tenants need dynamic and accountable tenant panels so that they can get the best out of the resources available and that landlords need panels to make their businesses more effective. http://nationaltenants.org/tenantpanels/

Diagram 3 Measuring VFM:
assessing the business case (before)
and evaluating business effectiveness (after)

The key to business effectiveness (VFM) is about knowing what you:

- should get for your money before you spend it (business case)
- got for your money when looking back and evaluating success.

It's about assessing VFM:

- comparing money spent on houses and operations (inputs) with value (outputs + outcomes).

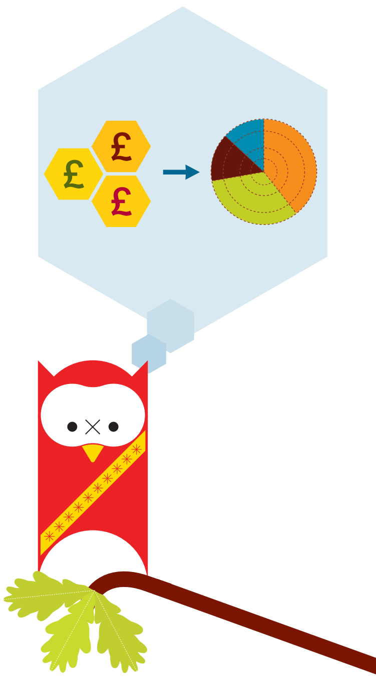
So we need a way to measure potential or actual VFM that works for different types of **social value**.

Assessing social value

Inputs are primarily measured in cash.

Outputs and outcomes (social value) generally involve various combinations:

- **social and economic benefits** to individuals and communities
- **service quality** - consumer benefits to paying customers
- **environmental benefits**
- **financial benefits**
  - a return (surplus) for reinvestment
  - knock-on benefits to other local services and taxpayer.



Social value is the whole circle

Breaking it down into its components helps you to better understand value and VFM.

Social and economic benefits

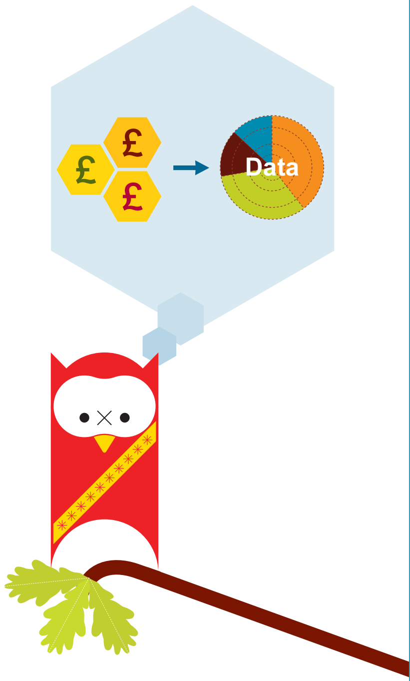
Service quality

Environmental benefits

Financial benefits

The judgement about how much of each component is right is yours, but you should be able to demonstrate how it contributes to business objectives. The aim is to produce as much value for your money as possible.

Assessing the potential VFM



Assessing the potential or actual VFM of an asset, initiative or service is possible by telling its story in these terms, but you'll need to be objective and make comparisons with:

- other options before spending
- other organisations when considering what you might achieve or have achieved.

For this you need data - benchmarking data.

It is important that cross-subsidy arrangements are transparent and the business case is understood by the board. Associations often use cross-subsidy from more commercial or profitable activities to support their social objectives. For example, an activity or a course of action might look like a poor proposition on the basis of its financial return, but when viewed from the perspective of its total potential social value look quite different and justify the cross-subsidy.

Similarly, it is important to understand the consequences of disinvestment or of choosing one option over another in the context of achieving objectives. Boards would naturally want to understand:

- the potential impact of withdrawing or radically changing a service in order to redirect resources elsewhere
- what cannot be done as a result of pursuing a particular choice. For instance, a development or acquisition opportunity may present itself – should it be taken at the expense of a planned initiative that is allowed to slip a year?

Navigating these issues requires a large measure of value-based soul searching and leadership, business nous and a preparedness to challenge what the association does and what resources it invests in any given activity. Whilst the development of business strategy looks to the future, it will be informed by a strategic evaluation of past performance, ie there is a continuum of evidence gathering, strategic analysis, understanding, option appraisal and decision-making from past to future.

Geeta Nanda
Chief Executive
Thames Valley Housing Association

We should be looking at what income we bring in and which business streams we are able to drive more value out of. We need to take a rounded approach to the business – more profitable streams may be used to back up more costly but worthwhile streams and some initiatives might cost more initially but become more efficient over time. VFM cannot be a static measurement but is about making the best use of resources available in different business environments that give the organisation the best outcomes at that time. For different housing associations this will mean different things and for the same organisation it means different things at various times.

The issue of reducing costs and working with residents is a hard one as they don't see reduced rents and they may not directly benefit from the reinvestment of savings. For example, there are difficult trade-offs between investment in services to existing residents and the provision of homes to new residents or investment in the wider community. Showing residents that the services they receive can reduce unless we become more efficient due to increased costs is really important, as is persuading them that we need to generate the financial capacity to build more homes.

THAMES VALLEY HOUSING

Step 3: Right assets

To enable the provider to undertake its business activities, it must invest wisely in the right inputs, such as physical assets (houses) and human assets (staff or procured services), that will produce the desired social value. This is about economy.

There are two primary assets at the provider's disposal:

Housing assets
Investment in the right physical assets (eg size/type), to the right standard, in the right places, for the right cost, for the right return.

This is about having and executing a coherent asset management strategy that spans development, improvement and repair, disposal and rationalisation. Critical to this is an understanding of the stock condition, its investment needs, demand, return and the business case for investment (ie what is the financial, social and environmental benefit of investment?).

Clearly it is wasteful to invest in homes that are not wanted, too expensive to maintain or take up a disproportionate amount of your maintenance budget. A capital receipt from their disposal might better serve business objectives. Whether such assets have a social or environmental value worthy of cross-subsidy is another matter, of course, which boards will need to consider in the round.

Similarly, some properties might be worth considerably more than others but not yield[3] a commensurate return because rents are set low or due to high management and maintenance costs. Again, realising the equity and reinvesting it might better serve the association's social objectives.

Associations should be prepared to challenge the extent to which their approach to asset management is fit for their social purpose. For more on this see Appendix 2, Assets: delivering and demonstrating VFM – an expert view from Savills.

Operational (human) assets
Investment in the right operational delivery model for the right cost.

Apart from its investment in physical assets, the association's other main area of expenditure is likely to be operational activities such as service delivery and back-office functions.

Typically, this involves investment in people, offices and equipment, or the procurement of services from others. Associations should be prepared to challenge the 'who' of delivery – alternative delivery models might represent better VFM, eg restructuring, merging, outsourcing and insourcing. Similarly, they should look to extract maximum value from their operational asset base – skills, knowledge, expertise and capacity may be sold to other associations and local service providers.

Clearly effective procurement is key, not simply in terms of securing the best mix of cost and quality but also in terms of seeking the added social value possible from the procurement of core services described at 2.1.

3 'Yield' is routinely used as a measure of return on investment for assets, in this case property – it is the ratio of income/property value.

Step 4: Right delivery

After agreeing business objectives, allocating resources to the right activities and investing in the right assets, the next step is to get the implementation right to secure the desired outcomes. This is about adopting efficient and effective operational practices – doing things right.

It includes:

Efficient operations:

- smart business processes
- a productive workforce – good human resource management practice: the right skills, development, delegation, encouragement and motivation, the employment package, appropriate staffing levels, routine review of vacancies, absence management etc,

Effective business practices:

- good governance
- transparency, accountability, scrutiny and challenge
- understanding of what customers' want – from involvement and insight
- performance management
- risk management
- financial management and cost control
- treasury management
- income management
- professional procurement
- working in partnership internally and externally.

The association must be prepared to challenge **how** it does things.

Step 5: Right outcomes

If the previous steps have been managed, it follows that the desired outcomes should be broadly achieved. This step, therefore, is about evaluating effectiveness:

- how successful has the association been in achieving its business strategy and longer term objectives? Has it delivered the anticipated value – ie the financial, social and economic, environmental and service quality returns? How do they compare to others?

- how will surpluses be reinvested to produce more social value?

- what has the association learnt and how will this change the business strategy going forward?

To do this, the association needs a system for measuring what it got for its money (information spanning inputs, outputs and outcomes) and the analytical capability to self-assess business effectiveness/VFM (we introduced VFM assessment at diagram 3).

Value (outcomes and outputs) is likely to be measured in the following terms:

- financial – the surplus after operating costs have been accounted for. Typically surpluses are derived from maximising the return on assets, cost reductions in operational activity, procurement savings, reduced interest paid on loans and the additional income generated from improved cash collection and growing the business, eg selling services to others. Surpluses may be reinvested to produce more social value

- social and economic – eg, new housing provision, a host of socio-economic measures and impact assessments associated with improving the quality of life and life chances. These outcomes are largely derived from 'added value' activities, eg number of people helped into full-time employment, as well as counterfactual data, eg reduction in vandalism and repairs

- environmental – eg SAP ratings, photovoltaic returns, fuel poverty measures, reduced environmental impact

- service quality – eg performance indicators, satisfaction data, qualitative assessments such as service reviews and external challenge. Support and care value could be included here or under social and economic.

With regards to the performance of physical assets, boards need to understand the relationship between cost, asset value and the associated return.

To evaluate VFM and make sound business investment decisions, the return on physical assets[4] needs to be understood at an appropriate level of detail. For many associations, this means understanding the performance of assets by business activity (such as social rented, affordable rented etc) down to the individual property level.

Diane Bellinger
Chief Executive
Community Gateway Association

We are keen to ensure we get good value on behalf of our customers and that we are delivering the services that they want. We and our tenants have a good understanding of the cost of each service and how well we are delivering. We also benchmark and know how we compare with others.

We are not always the cheapest. In some areas, when comparing HouseMark benchmarking data, we look expensive. Our tenants know this, but are keen for us to invest in the areas that they see as high priority. Our costs relating to community safety, for example, look high, but when we look at the achievements of the team it is considered by our customers that they deliver good VFM.

Community GATEWAY Association
Developing neighbourhoods in Preston

Similarly, in terms of measuring the costs and performance of operational (human) assets, these need to be understood at a level of detail that is helpful in making VFM judgements and informing future business decisions such as resource allocation, whether activities are reconfigured and which services are targeted for improvement. Again, this implies activity level information and, where required, deeper drilling to better understand cost and performance, the associated drivers and how they compare to others.

However, evaluation should not be seen simply as a sterile statistical exercise, although the information is critical in terms of providing a robust evidence-based approach. The extent to which the association has delivered and maximised its social objectives is likely to be a considered narrative, based on evidence and perhaps reflecting its own version of the social housing story illustrated at 2.1.

The sector has a compelling story to tell about the production and maximisation of social value. We need to get better at telling it and making it credible by backing it with robust evidence. Self-assessment is an opportunity to do this.

Whilst the self-assessment is clearly an assertion of past performance, its findings are critical to the future: what are the lessons and how might this affect the business plan going forward? We revisit self-assessment in section 3.

We have summarised key issues arising in this section for consideration by boards and executives at Appendix 3.

4 For more on this see Appendix 2. Assets: delivering and demonstrating VFM – an expert view from Savills

What might a VFM self-assessment look like?

3. What might a VFM self-assessment look like?

We set out here our thoughts on what a VFM self-assessment might look like as a basis for your own thinking. The view we have taken throughout this document is that business effectiveness and VFM are the same thing – that the association's narrative about the value it produces and how it maximises value cannot be separated. To underline this point, consider your use of resources – it governs everything you do. Doing the right things is a significant part of your VFM story.

Consequently, we believe that a VFM self-assessment should evaluate how successful the association has been in delivering its business strategy and longer term mission (including specific efforts to maximise value) and not simply amount to a disparate list of cost reduction and efficiency initiatives, as important as they are.

For many associations, the suggestion that it is good practice to evaluate business success will not be a new concept – they already have a range of practices and systems in place to help them understand success, including ways of judging VFM. The HCA regulatory requirement to produce a VFM self-assessment, therefore, should not drive your approach to business effectiveness/VFM but rather be absorbed into your own approach to evaluating organisational success.

What we offer here are some thoughts for you to consider alongside your existing arrangements. Avoid simply 'cutting and pasting' what we have said as it might suggest you have not sufficiently thought about it yourself. There is no prescribed way of doing a VFM self-assessment.

A VFM self-assessment has a number of uses:

- a business improvement tool – did you achieve your VFM objectives, are you doing better than last year, how do you compare, what are your strengths and weaknesses, where might you want to change or improve things?
- a transparency and accountability tool for use within the organisation, to share with stakeholders and meet regulatory requirements – we believe the approach we have set out here will be compliant with the regulator's requirements.

A VFM assessment is likely to be a considered narrative, based on evidence and reflecting the association's own social housing story, as illustrated at diagram 1.

A robust VFM self-assessment is likely to have the following components:

- a definition of VFM in the context of the organisation's purpose and objectives
- the organisation's strategic approach to VFM and use of resources
- the organisation's arrangements to ensure delivery of VFM
- what the organisation has achieved
- the organisation's plans for next year
- how the board has gained assurance in respect of the VFM self-assessment.

3.1. Define VFM in the context of the organisation's purpose and objectives

A likely first step is to set out a definition of what VFM means to the organisation in the context of what it is trying to achieve. VFM cannot be judged without reference to the value a given association is in business to produce. We covered this at 2.2. The definition probably needs to be reasonably short (no more than a paragraph).

3.2. The organisation's strategic approach to VFM and use of resources

You might want to consider briefly summarising the association's strategic approach to VFM. For many associations this means setting out the key objectives of the VFM strategy. If you do not have a VFM strategy you should consider how your business strategy – eg the business and/or corporate plan – drives business effectiveness/VFM.

To facilitate transparency and provide assurance, explain briefly how the approach was developed:

- refer to the evidence base underpinning the approach, eg analysis of past performance, comparison with others, research and application of good practice
- the strategy development process and sign off, including board and tenant involvement.

If you have a separate VFM strategy, how does it relate to the business and/or corporate plans and other critical strategies, eg procurement and workforce planning?

Clearly, a key element of your approach to VFM is the intelligent use of resources. This is an opportunity to demonstrate, as outlined at 2.2, that you are investing in the right things – business activities – to achieve objectives. It amounts to an assertion of the business case for investment and divestment:

- the right mix of activities or products
- the right allocation of resources between these activities and what you hope to achieve
- how use of resources decisions are made – the extent to which spend is challenged and decisions made on clearly articulated business cases and options, incorporating an understanding of cross-subsidy arrangements, trade-offs and opportunities foregone.

3.3. The organisation's arrangements to ensure delivery of VFM

Having dealt with strategy, you might then want to consider briefly the organisation's governance and performance management arrangements associated with planning, delivering and evaluating VFM. This might include the way VFM is embedded in organisational culture, eg:

- the board's role in leading on VFM and actively holding the executive to account for VFM performance
- promotion of VFM by the board as being integral to the achievement of organisational objectives
- importance of fiscal stewardship, eg having a considered financial plan, setting appropriate budgets, cost control and internal challenge of spend, active and competent financial management by budget holders, income protection strategy
- tenant involvement in VFM, eg agreeing priorities, shaping services and scrutinising service performance and VFM
- ensuring staff understand their role in the production and maximisation of value and that this is reflected in the approach to performance management
- adopting good practice – keeping processes and practices under review.

3.4. What has the organisation achieved over the past year?

We suggest that answering this question requires a robust understanding of the performance of physical assets, cost and performance of services and the added value achieved through procurement. The approaches to treasury management and procurement are important too.

A key area of focus is likely to be the performance of housing assets – a rounded summary, incorporating data and narrative, of how the approach to asset management is maximising value. This requires an understanding of:

- economy – the cost of stock investment, cost drivers and how costs compare
- effectiveness – the return (and any anticipated return) expressed in financial, social and environmental terms
- how performance has changed over the past year, eg steps taken to improve asset performance.

Associations should be able to demonstrate that their allocation of resources and investment is efficient and focused on where it will have the most sustainable impact. Evidencing the VFM of physical assets, therefore, should flow from the decisions made as part of the asset management strategy, eg that investment decisions were based on a sound understanding of the needs of the stock and the business case for investment, which includes a clear understanding of the financial, social and/or environmental return (see diagram 4).

For this to be a meaningful exercise, associations should be able to understand asset performance by key product types (eg social rents, affordable rents) and key locations. Where stock is not performing well financially, a well-evidenced social, environmental or other explanation should be provided – ie what the business case is for holding the assets.

Diagram 4 Assessing the VFM of physical assets: worked example

VFM of physical assets

Here are two houses **A** and **B**

- **Both** have four bedrooms
- **Both** house a single family
- **Both** have the same rent
- **Both** are stuffed with period features.

Physical characteristics

A

From 1910, such as:

- poor insulation
- aging plumbing
- damp cellars
- timber windows

= high maintenance cost

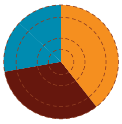
B

From 1990, such as:

- decent insulation
- DHS compliance
- damp course
- UPVC windows

= low maintenance cost

A

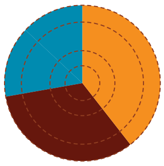


Rent	£5,000
Costs (inputs)	£3,000
Surplus	£2,000
Property value	£500,000

Social value (outcomes)

Financial	0.4% return
Environmental	poor
Social/economic	1 family home dissatisfied tenant

B



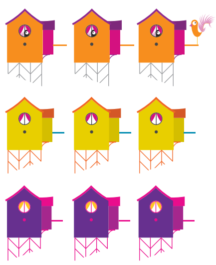
Rent	£5,000
Costs (inputs)	£1,500
Surplus	£3,500
Property value	£300,000

Social value (outcomes)

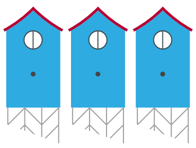
Financial	1.1% return
Environmental	excellent
Social/economic	1 family home satisfied tenant

The social value of a property might be low, in which case sale and reinvestment of the proceeds might produce more social value...

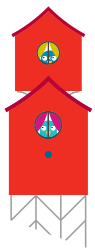
Any of these investments will produce an increase in social value – so which to choose?



£500k + extra debt
= 9 x 3 bed houses

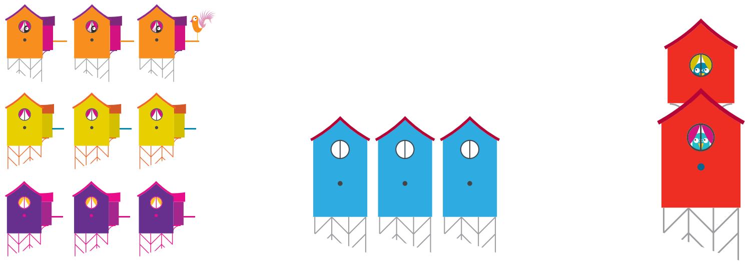


£500k = 3 x 3 bed houses



£500k = 1 x 5 bed house
+ £200k for something else

It all depends on what outcome is being sought...



Nine families are housed under this option, but extra borrowing is required, which may be fine for some...

... but not acceptable or possible for others, in which case this option would house three families...

... or alternatively the priority may be housing large families, so this option would be best.

Another key consideration is service cost and performance – a rounded summary across activities, incorporating data and narrative of how operational activity is maximising value. This requires an understanding of:

- **economy** – overall costs, the costs of specific services, including overheads, what drives costs and how they compare
- **efficiency** – the extent to which productivity arrangements, eg staffing levels, working practices and smart business processes, are improving efficiency
- **effectiveness** – service outcomes expressed in financial, social, environmental and service performance terms and how they compare
- **how performance has changed** - over the past year, eg steps taken to improve operational performance.

Other considerations include:

- the extent to which the approach to treasury management is supporting VFM, eg brief reference to the cost of capital, debt management strategy and any evidence of savings from active debt management
- how procurement has leveraged additional value creation
- any reported cost savings, which should reflect:
    - upfront investment
    - knock-on costs or other impact
    - service reduction/cessation and extent to which this has tenants' approval
    - how efficiencies/surplus will be reinvested to produce more social value.

Remember, VFM is ultimately a qualitative judgement that needs to reflect the value perspective of a range of stakeholders. To be credible, judgements must:

- be based on good evidence, both quantitative and qualitative – assertions should signpost to the evidence source, eg board reports, organisation's own performance scorecard, tenant satisfaction information, service reviews, complaints and compliments system, benchmarking data, asset management register and strategy
- be honest and self-aware, exposing both strengths and weaknesses as the basis for learning and improvement.

Diagram 5 Assessing VFM of human assets: worked example

VFM of human assets

Here are two repairs contractors. Both are external companies. Both are being considered by Happy Homes HA to deliver its day-to-day repairs services

- annual contract price £1.3m
- guaranteed employment of 25% local labour
- will undertake tenant consultation and feedback

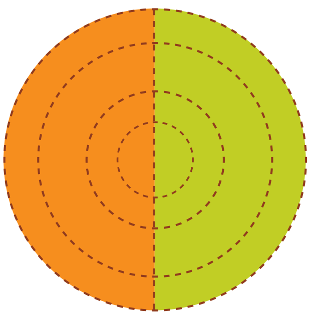
= higher cost, but more social and economic value

Contractor fee	£1.3m
Client costs	£0.1m
Total input	£1.4m
Total output	Properties repaired

Social value (outcomes):

Service quality = top quartile

Social/economic = employment



- annual contract price £1m
- 'green' credentials high
- longer target timescales for non-urgent repairs

= lower cost, more environmental value, but poorer standard of service

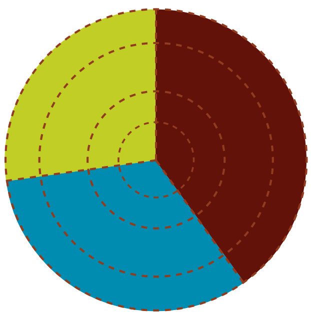
Contractor fee	£1m
Client costs	£0.2m
Total input	£1.2m
Total output	Properties repaired

Social value (outcomes):

Service quality = median

Environmental = greener planet

Financial = savings



In respect of **social value**, different results

Either contractor will produce different types of social value - so which to choose?

- lower client costs – staff can do other things
- local employment opportunities

- lower overall cost, £££ can be spent on other things
- more sustainable homes for the future

Again, it depends on what outcome is being sought...

- Keep costs low so can spend £££ on other services; improving performance and tenant satisfaction not high priority - **choose B**
- Tenants have made it clear quality of repairs service is top priority and understand this means less £££ to spend elsewhere – **choose A**
- Happy Homes pursuing 'green' objectives - **choose B**
- Happy Homes' key objective is to provide local employment opportunities - **choose A**

3.5. The organisation’s plans for next year

This is about projecting forward how the association will build on the past year’s performance. It might include:

- applying learning – what are the key changes to the business strategy and approach to VFM? How have ambitions changed? This might, for example, include changes in the approach to asset management and service delivery model

- what key VFM issues will be addressed, eg identified weaknesses and improvement initiatives?

- what additional value will planned improvement initiatives deliver (including any efficiency gains)?

- what is the business case?

3.6. How the board has gained assurance of the VFM self-assessment

A brief narrative setting out the board’s view about the robustness of the self-assessment process and evidence base. This should include reference to the:

- range, currency and quality of information available, including the identification of gaps and weaknesses

- extent of challenge from board, tenants and third parties (peer review, externally commissioned service review, accreditation)

- capability of those involved to understand the information, challenge and make judgements.

What weaknesses were identified in the approach and what steps will be taken to address this in the future?

How NHF and HouseMark can help housing associations achieve VFM

4.1 How the NHF helps

The National Housing Federation, as the trade body for housing associations, provides a range of services to support its members in running their businesses efficiently and effectively.

- NHF's policy function aims to identify and head off threats to associations' independence and any procedural or administrative requirements that add to costs without adding value.
- Changes in recent years to the regulatory regime have greatly reduced the regulator's engagement in the day-to-day housing management function of associations.
- NHF lobbying has secured important changes to landlord and tenant law to simplify processes and avoid needless burdens.
- Following very strong pressure from the NHF, proposals are well advanced for a 'cost-sharing' VAT exemption to allow associations to share services without incurring tax costs.
- NHF publications provide advice and information to help drive greater efficiency, e.g. on procurement of goods and services for construction and major works.
- NHF conferences and other member events often involve expert speakers on techniques for more efficient working, besides affording opportunities for members to share their own experiences and expertise.
- NHF owns a 50% share of HouseMark (see below).

4.2 How HouseMark helps

HouseMark is the essential business effectiveness tool. Our industry-standard cost, performance and quality benchmarking data are already used by hundreds of providers in their VFM analysis.

- We are now developing a new – and complementary – business data service to assist our members with their forward planning. Effectively joining up data from the past to the future, including the ability to compare business plan assumptions, the new service will be available in 2013 and make a major contribution to your 'total VFM' endeavours.
- Undertaking a VFM self-assessment will be new to many, and requires rigour and evidence. Data and comparisons are key. HouseMark is the only provider of consistent, validated and trusted cross-sector data.
- Our online knowledge base is a one-stop shop for case studies and good practice information about VFM. We are collecting examples of VFM self-assessments as they are published, forming a repository for our members so they can learn from others' approaches. We are also launching a VFM blog.
- HouseMark consultancy provides bespoke support to members across the VFM spectrum – understanding and interpreting total VFM, embedding VFM, measuring and evidencing VFM, targeting scarce resources, making savings and improving services, and making the money work harder.
- Smart procurement has a major role to play in achieving VFM. Our collective procurement service, Procurement for Housing, is now well embedded in the sector and offers more than 35 goods and services at discounted rates. We are looking to further improve VFM through exploring a procurement alliance with the Northern Housing Consortium and Fusion 21.

Conclusion

5. Conclusion

'Toto, I've a feeling we're not in Kansas any more'

Without a doubt, the operating environment for every provider has changed irrevocably in the past two years. Reduced public spending and changes to private finance, welfare reform, increases in housing demand and homelessness along with rising customer expectations all serve to bring into sharp relief the risk map that providers must navigate. However, these changes and challenges also bring opportunities – to create new homes, better services and to maximise the value the sector is already producing.

'There's no place like home'

Set against a bleak economic outlook is the strength of the sector, which is considerable in terms of both its financial position and its commitment to the production of social good. As our chief executive contributors have said, their mission is to help people put down roots, support them through the difficult times ahead and meet or exceed social benefits. The sector's value proposition is simple – associations provide homes and services that make a difference to the lives of individuals and communities, which in turn make a direct contribution to the nation's economy and well-being.

The good that associations do is required more than ever. Regulation aside, and as evidenced by our contributors, it is right that associations seek to maximise the production of social good. The road associations must travel is riskier than it has ever been but there will be opportunities too. Hearts, brains and even courage will be required to make the right and often difficult decisions that will achieve social objectives whilst not compromising the viability of the business, and therefore losing entirely the capacity to do social good.

Appendix 1:
What VFM means for different housing associations

Appendix 1 : What VFM means for different housing associations

We asked a diverse group of housing association chief executives to provide us with their thoughts on what VFM means to them as business leaders and how they achieve it. Their contributions reflect a broad range of content and emphasis whilst sharing much common ground. They are reproduced here in full as we believe there is value in setting out in one place a range of perspectives for you to reflect upon and draw your own conclusions.

This is what they said:

Nick Atkin, Chief Executive, Halton Housing Trust

We define VFM in the following terms:

- the cost that we are prepared to pay for the quality of service that we want to deliver
- the right service to the right people at the right time
- a combination of cost, quality and added value.

Through VFM we seek to achieve:

- resources directed towards the organisation's key priorities and objectives
- a balance between cost and performance
- customer satisfaction.

Our approach to VFM includes:

New corporate direction

Our vision reflects the changing environment and the impact that both government policy and the economy will have on our customers. We want to continue to deliver the services and homes that they will need in the future. This means releasing some resources to build more homes, deal with the risks of welfare reform and provide effective services.

The resultant changes need to be implemented in a timely and orderly way, incorporating project, risk and performance management, and capture the impact and benefits.

Improving the Customer Experience programme (ICE)

A focus on the customer:

- a new customer services team resolves queries at the first point of contact and provides extended cover at no extra cost
- flexible working – the removal of core working hours and improved ICT infrastructure means staff can work from any of our sites or from home at a time of their choosing and when they perform at their best. Performance is assessed on outcomes and not time at a desk
- services have been configured to customers' preferred method of communication: by phone or in person at home. Combined with hot-desking and a 'clear desk' this has reduced our required floor space, resulting in cash savings of £125K per year
- improved ICT systems and lean processes aim to deliver more efficient services
- extensive customer involvement and the use of profiling data helps to ensure we get services right.

Cost and performance

A focus on cost and performance:

- our balanced scorecard includes measures that map directly to our corporate strategy as well as reflect our approach to VFM. This approach is then cascaded to departmental scorecards and subsequently the performance development reviews of each member of staff. Our four scorecard perspectives link to VFM as follows:
    - stakeholders and finance – economy
    - learning and growth – efficiency
    - business processes – efficiency
    - customers – effectiveness.
- HouseMark gives us a clear indication of how our costs and performance compare with our peers and how our results have changed year on year
- staff are encouraged to learn from other organisations, eg job shadowing, visits, exploring good practice, using forums and improvement groups
- our approach to procurement aims to secure the best price for the required quality. In some cases that might mean outsourcing or working in partnership, in others it means bringing services back in house
- VFM is championed by a lead board member, reviewed quarterly by the VFM group and communicated to staff and tenants
- sustainability assessments underpin asset management decisions.

Diane Bellinger, Chief Executive, Community Gateway Association (CGA)

We are keen to ensure we get good value on behalf of our customers and that we are delivering the services they want. We, and our tenants, have a good understanding of the cost of each service and how well we are delivering. We also benchmark and know how we compare with others.

We are not always the cheapest. In fact, in some areas, when comparing HouseMark data, we look expensive. Our tenants know this, but are keen for us to invest in the areas that they see as high priority. Our costs relating to community safety, for example, look high, but when we look further at the achievements of the team it is considered by our customers that they deliver good VFM.

The same can be said of our focus on customer involvement and empowerment – we commit high expenditure in this area and I would argue that this leads to impressive results. It is sometimes difficult to link cost with ultimate outcomes, and when questioned by the Housing Corporation and Audit Commission in our early days, I argued that it would take five years to really appreciate the outcomes of investment in this area.

Five years on and our performance indicators show a massive improvement in all areas, particularly those relating to monetary performance. Our rent arrears, void levels, relet times and repair performance are all in the top quartile, ensuring maximised rental income, lower turnover of property, reduced costs associated with vandalism etc. Is this a VFM argument? I would say yes. With tenants intimately involved in every aspect of our service delivery we can`t get away with wasting money.

We are looking to expand the work we do in assessing value. Each year we have produced a detailed review of our community activities, their cost, how many individuals were involved and/or benefited from them. This has helped us in planning future projects and ensuring better value in the future. We have also used this information to help develop the Community Gateway Model.

This whole area is now enveloped by the desire to better understand our social return on Investment and links well with how we will handle legislative changes, particularly those relating to welfare reform. It is obvious to us that investment in, for example, welfare advice, will benefit not only individual households on our estates, but the organisation as a whole if our tenants are better placed to be able to pay their rent. A similar argument may be applied to worklessness initiatives too.

We can relate these arguments to what the wider tenant body tell us, not just those involved more regularly. In our recent STAR survey. 86.2% of tenants said our services were effective and efficient, 88.6% said we provide the service they expect. Only 23% said VFM for rent/charges was a priority; however, repairs are always the issue with the highest priority/satisfaction rate.

The tenant scrutiny group include VFM as part of each scrutiny process, but interestingly have chosen to focus specifically on VFM for their next topic. They are clear that the topic should be more about the VFM they receive from CGA than about what VFM we achieve with our supply line. It is, therefore, their intention to test the impact our expenditure makes on their quality of life.

Joe Chambers, Chief Executive, Soho Housing Association

Value for whose money?

Value should be determined by organisations and they should be able to prove and justify that across their business. We should resist universal measures of VFM. What residents, regulator, government, councils think of as VFM will all vary and so the arbiter must be the leadership of the organisation through the board and, in the right circumstances, the shareholders.

The residents' money?

The climate created by government and regulation has led affordable housing to be a product which is better than market, built to higher standards and with more security of tenure than market products. In addition, social landlords are required to provide more services of a greater standard than tenants could expect in any other forms of housing. If the state believes that this is a helpful way forward and is prepared to pay for Taste the Difference quality in what is essentially a value product then that is the government's prerogative.

With around 95% of all affordable homes meeting the Decent Homes Standard – low though that standard is – I would contend that the vast majority of affordable tenants are receiving VFM.

The government's money?

The government tells us that there is £60 billion of its money wrapped up in grant in affordable homes across the country. Let's take a look at the agreement for that grant. First, it was not given out as an investment. Second, a lot of that grant was made 20 or 30 years ago. The value that could be produced and was expected has been realised, not only through the provision of affordable housing over that period but also through commercial borrowing against that housing several times over and this continues to be the case.

I am not saying that the sector cannot extract more value from the grant in our properties and we work hard to do so but I think the government has had and continues to get a reasonable return from the grant.

The housing association's money?

If a housing association is financially viable and its customers are happy, does it matter if the service is provided inefficiently? Whose business is it that the association wastes money? Historic thinking is that the tenants should be up in arms about it: 'how are you spending my rent?' Well, the truth is it isn't their rent. Rent is a payment in exchange for using the property. The rent is now the housing association's, provided that it undertakes its contractual obligation by providing a home that is safe, dry and warm. Where the provider fails in this regard the regulator should step in. Similarly, if the association is financially reckless or jeopardises the future of the homes it provides, the regulator should intervene.

Not wasting money, operating efficiently, remuneration etc are all provinces of the non-executive board and shareholders. Their sole interest is ensuring that the organisation is well run, safe and delivering its objectives. It is these two groups that should be rightly very interested in the value and VFM provided.

I believe there is a very strong case for providing affordable housing in the centre of London on economic and social sustainability grounds – that is the value of what Soho HA does. If it was only about providing new homes we should sell Soho HA and spend the money building houses somewhere cheaper.

Our residents might think we should spend more money on improving their homes – that might seem like good value to them; the government might think we should sell Soho HA and develop somewhere cheaper – that might seem like value to them; the regulator might think we should develop as HCA partners – that might seem like value to them. They all have a valid perspective but the only one that matters is the board's assessment of value against what we are trying to achieve – everyone else is an onlooker.

Measure for value

Board and shareholders should be defining and measuring the organisation against its objectives. It is not possible to determine whether money has been put to good use unless you know what outcome you are hoping for. Housing associations should have clear aims and objectives against which they measure themselves, including social aims such as getting communities back to work rather than hard commercial aims like development. Once these are set out the organisation should then work hard delivering against them with all the resources they can safely muster.

Value is subjective to the organisation but that does not mean it cannot be measured. Value has to be about what are you trying to achieve measured against what you can afford and your organisation's view of the relative importance of that goal. Provided that you don't rely on others for the funding to deliver the goal, then what you consider value is value. If you are not delivering your goals your board has to determine if they are realistic, deliverable within the resources available or whether the executive is competent.

In summary we must:

- be absolutely clear what we are trying to achieve to all our stakeholders and partners
- be transparent in whether we have or have not delivered that achievement
- be able to show that we are safeguarding existing commitments – grant obligations etc
- show that we are financially sound organisations because we are in relationships with people who cannot easily hold us to account
- show that we are well governed with integrity and probity.

Kevin Dodd, Chief Executive, Wakefield and District Housing

VFM is used as both an absolute and a relative measure of an organisation's performance in the housing sector, but the value of any conclusions derived from such measurements has significant limitations.

Wakefield and District Housing (WDH) acknowledges the need for VFM to be recognised, measured and reported but believes it should be considered as the optimum compromise of inputs, processes and outputs in any given set of unique circumstances.

Whilst the elimination of waste, efficiency improvements and behavioural change are prerequisites of any well-managed business, the ability to meet the expectations of its stakeholders is essential too. The delivery of long-term VFM benefits also requires accountability, transparency and evidence of value added considerations.

Clearly VFM needs to be considered from different perspectives if it is to be evidenced to the satisfaction of all stakeholders. WDH has developed a VFM strategy that recognises VFM through four distinct but complementary perspectives: the requirements of tenants; the social return on investment; the commercial and competitive environment; and organisational efficiency and effectiveness.

Inputs will be assessed by WDH in terms of their optimum balance between cost, quality, and social benefit; processes in terms of their elimination of waste and improved efficiencies; and outputs in terms of their effectiveness at meeting need, their affordability both financially and environmentally, and their ability to raise aspirations and expectations of tenants and other stakeholders. Consideration of VFM is being embedded in decision making within WDH and is driving transformational change of service delivery through innovation and challenge. Measurements will be developed, in-house and with others, that will promote and evidence social responsibility accounting (SRA) from these four perspectives of VFM that will eventually become as robust as our audited financial statements.

Keith Exford, Chief Executive, Affinity Sutton

Demonstrating VFM: what's the problem?

There is quite rightly much scrutiny of the VFM demonstrated by the social housing sector. With housing associations coming in so many shapes and sizes, inevitably the picture is a complex one but it is difficult to understand why there is so much variability in the costs of similar housing associations doing apparently similar things in the same areas.

The differences can be explained in part by the widely differing activities we undertake. For example, those providing care and support and who are active in community investment work will incur justifiably higher costs than those providing a narrower range of services. And stock condition and property types can have a big impact on repair and asset investment costs. But benchmarking operating costs on a truly comparable basis is challenging and, presentationally at least, it can be difficult to explain to the public and politicians why costs look so different.

The expectations of the new regulatory regime will place all housing associations under even greater scrutiny to account for how we are securing VFM in what we do. This can be no bad thing, although the way the information is used must recognise the independent nature of the sector and the choices we make about how we use our resources for public benefit.

There is an argument that the grants housing associations have received are intended only to support lower rents (as determined by government) and to provide tenant services to the standards set by the regulator. If we can meet these twin contractual obligations in an efficient way and create surpluses and capacity that enables us to re-invest in more new homes and discretionary neighbourhood services, then in itself this represents good value for taxpayer investment. However, in an era of intensive scrutiny of every organisation, be we public, independent or private, we can expect to be under ever greater pressure to justify the added value we can deliver.

Delivering VFM at Affinity Sutton

One of the main ways in which Affinity Sutton has sought to improve efficiency and deliver VFM is by growth through merger. Three significant mergers since 2001 have generated about £5.7 million savings per annum in operating costs. In our case, size matters and our growth has made a huge difference to our residents and our organisation.

In parallel, we have adopted cost reduction plans that have seen consistent year-on-year real reductions in operating costs, including a major restructuring of frontline services. We place particular emphasis on a number of key financial 'golden rules'. Among other measures, these target year-on-year decreases in operating costs as a key indicator of improving efficiency. Since 2003, ongoing costs of some £17 million pa have been taken out of the business while resident and staff satisfaction has increased.

Other achievements include:

- increased bottom-line surpluses, which are likely to continue
- improved capacity to invest in new homes, services and communities
- larger development programmes than the combined pre-merger output
- increased investment in major works, regeneration and community activity at a time when many were reducing expenditure in such areas
- annual savings of £5.5 million from tendering exercises across a range of our activities
- bringing financial services back in-house to improve delivery and secure annual cost savings
- service task teams comprising residents recommend service improvements across the Group, eg a new grounds maintenance specification, which led to cost reductions of 20%
- a new insurance deal, which is forecast to deliver savings of about £250,000 annually
- a raft of awards, including the Business in the Community Award for Building Stronger Communities 2011 and the What House? Housing Association of the Year Award 2011.

We benchmark our costs with HouseMark against those of the largest London and national associations with the results of this analysis used to prioritise periodic, in-depth reviews of those elements of our performance that compare less favourably with our peers. This can lead to systems re-design, service improvement and market testing. Moreover, in 2012 we have appointed specialist consultants McKinsey to undertake a detailed analysis of all of our core business processes, to compare these with best-in-class practices across their client base and to come forward with proposals for how we might deliver our services more effectively and efficiently.

The pursuit of VFM, sustained financial strength and capacity are embedded in the management culture of Affinity Sutton. As a business for social purpose, we see it as vital that we operate as efficiently as we can so as to create the capacity to provide good services for current residents, develop at least 1,000 new homes a year and invest in the well-being of the communities in which we work. Although we have a good track record in this regard, we plan to build upon our achievements in order to support our mission of 'helping people put down roots'.

Paul Fiddaman, Chief Executive, Cestria Community Housing

In the housing sector, VFM has evolved to mean something beyond a conventional definition that most consumers would recognise. To many, it would represent a positive relationship between the price paid for a service and the quality of the service provided, usually based on the perceptions of the user of the service, with all of the subjectivity implicit in that.

In the post-rent convergence world, where rents for similar properties in similar locations should be similar, this differentiation becomes much more about quality. The regulatory take on VFM has evolved into a focus on cost of provision, based upon vague notions of value for the public purse. Most consumers would be indifferent to this element of the equation. It will be interesting to see if the affordable rent regime, with its reference to market forces, reintroduces price as an element in the VFM equation.

For organisations like Cestria, with a strong community focus, the current environment of cost escalation and cuts is likely to place great hardship on people. We believe that it is critical to the success of our communities that we are able to focus resources on supporting people through the difficult times ahead. This takes the form of training and employment, financial literacy and advice, diversionary activity for young people, greater focus on a high quality physical environment, energy efficiency, health and well-being, and development of community capacity – the list goes on.

To enable us to invest in activities to develop our communities, we need to ensure that our core services are delivered as cost efficiently as possible. This requires a whole-organisation approach in which VFM is a key cultural consideration. Our performance improvement activity involves the use of lean systems techniques to eliminate waste from our processes, ensuring that we are able to focus resources where they are needed.

Activity that adds value to a community, but not directly to the bottom line, would be easy to abandon in straitened economic times. That is why I welcome the growing awareness of calculating the social return on capital. This will inevitably prove to be a hugely judgemental figure, and will often need to feature a significant health warning. However, it will emerge as a key indicator reflecting the value of the work that our sector has woven into its services organically over the years, and is key to the success of many housing organisations.

Mark Henderson,
Chief Executive, Home Group

Austerity wasn't a word that regularly made the headlines until the past couple of years. Now we are often told that it's the new norm and it's certainly resulted in a very radical shift in UK housing policy.

Deficit reduction, fiscal consolidation or VFM: these things all have very different names but to our customers and clients they simply mean delivering more for less. It's a challenge for the sector that's often been characterised as closer to the 'flabby' rather than 'squeezed' middle.

It's certainly not a backdrop anyone at Home Group would have wanted to see but it has one noticeable positive. It has significantly changed the terms of debate. How we spend customers' or taxpayers' money has always been important but now it has an added edge.

At Home Group we have made a fundamental commitment to transparency. Though we were already a lean organisation, we have found that the additional openness has brought renewed vigour and focus.

In many respects our size offers us an advantage in this respect – with over 54,000 properties we are able to generate considerable economies of scale. We have recently launched an innovative customer service centre and have also negotiated competitive contracts for the outsourcing of repairs and maintenance. Bigger isn't necessarily better but here it's actually enabled us to significantly increase our customer satisfaction figures whilst simultaneously delivering VFM.

However, size also brings with it some challenges. The diverse geography and range of services within Home Group poses a significant challenge when considering VFM – balancing the need for local detail against the national picture. We need to ensure value for money can be evidenced from board members to customers and local authorities and regulators. Work has started at Home on a range of initiatives, including:

- building up a detailed understanding of the true costs of the services we provide and using this to support strategic decisions
- establishing bespoke benchmarking clubs in addition to using HouseMark to further analyse our costs and performance
- capturing data to allow us to understand the social impact our investment and work has on our customers and communities.

But we shouldn't just focus on what Home or the sector is doing. The government annually spends almost £700 billion. Real VFM will come from an approach in which budgets and information are not determined by departmental silo. For our customers there is not a magic line where the DWP stops, the local authority starts and the CLG takes over. Our customers don't want to see things operate within bureaucratic boundaries. Real people want services that feel joined up, and it can be a huge source of frustration when that does not happen.

Though some important progress has been achieved, the single greatest driver of inefficiency – siloed budgets – remains virtually untouched. The roll-out of community budgets for families with multiple needs is a good step, but represents a minute proportion of the total amount of money spent. We have to break away from both individual and collective departmental dominance and move towards earlier, more joined-up intervention. Until we are able consistently to break down the siloed barriers of Whitehall that's unlikely to happen.

Better outcomes, making limited resources go further, and improving people's experience: they have been policy aspirations for years. Our present system merely seeks to solve a problem rather than prevent it. That's not what we regard as VFM.

If success is about helping people, addressing complex social need, enabling people to take control over their own lives and driving economic growth, then the housing sector already offers VFM unmatched either by government or by the private sector.

Mick Kent, Chief Executive, Bromford Housing Group

So, what's VFM all about then? Put aside the textbook definitions, the in-depth articles from the 'intelligentsia' on the internet and the endless reams of opinion published in the broadsheets from those 'in the know'. We don't need all that do we? Really though, do we? Of course we don't. As our finance team would say, we just need to 'release our inner accountant'.

Now let me take you back to your school days with a history lesson. Picture now the battle of Trafalgar. Lord Nelson takes on and beats a combined French/Spanish fleet. In the aftermath of defeat, the French admiral Villeneuve said of the British force, 'Every captain was a Nelson.'

Nelson built a winning team through delegation and leadership skills. He trusted and had confidence in his people. He worked, in advance, on action plans and strategy so that when the time came, delegating full responsibility to each captain, the result was that the French/Spanish fleet was defeated by not one but 20 Nelsons.

At Bromford, that's what we have been doing. We have set about improving the skills and understanding of our leaders, knowing that they are critical to our ongoing success. We've been developing our own Nelsons through our Living Leadership academy. Our leaders have received a wide range of coaching from experts, including one session entitled 'Embedding Commercial Thinking', and we now have over 300 skilled and empowered leaders. These have helped us to 'not just survive but thrive' to the extent that our operating margin on continuing operations for 2011/12 will exceed 37%. See what I mean about releasing your inner accountant?

We devised a clear, graphic representation of what we could do with every pound saved and really brought it home to an audience of 1,100 Bromford colleagues by building a virtual 'Bromford Street' of 50 homes using money that had been saved in just one year of our value for money programme. At least half of the street was funded from procurement efficiencies, the remainder from numerous smaller savings, driven by colleagues, which, when put together, made a massive difference. The reaction from our 1,100 colleagues, as you might expect from an engaged, enthusiastic bunch, was electric. Just as the Trafalgar victory was won by every captain being a Nelson, our VFM story is about every Bromford leader being trained and coached to release his or her own inner accountant.

Skills and enthusiasm, however, have not been the only drivers of our success. Showing colleagues how they personally can help us be more efficient and, most importantly, what we can do with the money saved, is what embeds our VFM culture. Preparing leaders to help their teams embrace change is what has enabled Bromford to make tough decisions. We have been willing to tackle the difficult issues, such as changing terms and conditions of employment, freezing pay, closing offices, amalgamating legal entities, eliminating wasteful processes and building leaner operating structures, which has meant that we've had to say farewell to valued colleagues. This wouldn't have been possible without the commitment of our amazing colleagues, supported by skilled and confident leaders.

So, to continue delivering great service to your customers whilst attaining exceptional financial performance, set out your strategy, empower your Nelsons and, go on, release your inner accountant.

Jon Lord, Chief Executive, Bolton at Home

VFM is not an end in itself. It has to be a given regardless of what you do as an organisation that you seek VFM as a means of achieving more. VFM is not about going for the lowest cost as it has to reflect benefit versus cost. Therefore you may quite legitimately go for the most expensive option because it brings added value.

This is a very live discussion with the regulator. VFM should not dictate what you do, but should be a factor in choosing how you do it. There is a real risk of over-simplifying it so that it becomes 'seeking the lowest cost' and the true meaning of VFM is lost in that simplistic interpretation.

As with any approach/process that seeks to enhance the business – VFM, IT, systems, HR etc – the tail can end up wagging the dog, and become the unintended inhibitor of positive change, rather than a means of supporting improvement. That is why Bolton at Home will keep an eye on our objectives and use VFM as a tool to do more.

VFM is critical to what we do in the current economic climate and it needs to focus on the systems we put in place to ensure we meet or exceed our social benefits as an organisation

Carol Matthews, Chief Executive, Riverside Group

VFM. What is it? At one level it's simple – that instinctive feel for when the balance between quality and price is right. The trade-off has worked for you.

However, at an organisational level it is more complex. It is easier to say whether a product represents VFM than whether an organisation achieves it in the round. It begs the questions of what and for whom? Is it VFM for tenants (in all their diversity), for other stakeholders who may want something else entirely, or indeed for the taxpayer? The tenant is bound to want to maximise service quality for the price paid (which is generally fixed), whereas the taxpayer may be keen to see a basic service provided to tenants, with increased surpluses applied to developing new homes. VFM is entirely subjective.

For this reason VFM can only be seen within the context of the overall strategic objectives of an organisation, which, to be fair, the HCA has recognised in its new VFM standard. Considered in this way, VFM actually becomes the delivery of an organisation's business strategy in the most cost-effective way possible. What prevents this from being delivery 'on the cheap' are the objectives themselves – if they are broad enough and genuinely represent the strategy of the organisation, then the cost-effective delivery of them will, by definition, deliver VFM.

A balanced set of objectives might include: delivering quality core services, building more homes and delivering more for customers through 'added value' initiatives such as employment and financial support. So VFM is about the cost-effective delivery of the things we must do, in order to create the financial capacity to do the things we (and our customers) want to do.

Riverside's approach to VFM (or the effective delivery of our business strategy) includes:

- strategy and planning – VFM is one of the six themes of our corporate plan. We have a robust approach to business planning, starting with clear financial targets based upon underlying measures of viability such as interest cover and gearing.
- performance and financial management – the Group has developed a series of metrics and routinely reports on:
    - performance against corporate plan objectives through a balanced scorecard
    - operational performance KPIs are reported to boards (at every meeting), engaged tenants (through the scrutiny panels) and all customers (through the annual report)
    - financial performance, through monthly management accounts, with forecasts prepared from the second quarter in the financial year
- benchmarking – we are HouseMark members and are on a journey to using benchmarking information intelligently in annual self-assessment processes at both Group and divisional level, and in our annual report to tenants
- procurement – delivered by a specialist team and the Group's scale has been used to secure significant savings with further savings targets set in our corporate plan
- understanding the performance of assets – an annual exercise measures neighbourhood sustainability and we are developing an improved understanding of the financial performance of our stock through the Housing Futures assessment tool
- organisational structure – mergers, the amalgamation of subsidiaries into a single asset-owning association and the centralisation of transactional-based finance have delivered significant overhead savings and streamlined governance. A major reorganisation of housing support services will ensure that Riverside thrives in a more challenging contracting environment
- service review and improvement – we target a limited number of service areas each year, applying a common methodology incorporating benchmarking, cost comparison, process reviews etc
- operations – VFM is embedded by cascading our organisational values; maximising value, minimising waste and corporate plan to form the basis of divisional and team plans. The annual appraisal framework sets targets against each organisational value for individual staff members.

But there is more we can do. Whilst there is no shortage of activity, it isn't always sufficiently co-ordinated to create a comprehensive approach that is consistently delivered. We need to:

- develop a timetable and process for self-assessment against the VFM standard
- devise new measures relating to the new standard, eg asset performance
- improve our use of benchmarking information, particularly in relation to deepening our understanding of the drivers of high-cost activities
- improve the linkages between the high level objectives set out in our three-year corporate plan, and our annual budget and business planning processes
- strengthen the engagement of tenants and other stakeholders, in both the prioritisation of discretionary expenditure and the scrutiny of our core services
- improve awareness and skills of board members, to ensure full ownership.

Geeta Nanda, Chief Executive, Thames Valley Housing Association

VFM has typically been seen as producing more output for the same input or the same output for less cost. Going forward, the ratings agencies, increased cost of finance and welfare reform will force us to think much more about efficiencies and value.

What is always missing in this definition is the income side of things – we should be looking at what income we bring in and which business streams we are able to drive more value out of. We need to take a rounded approach to the business – more profitable streams may be used to back up more costly but worthwhile streams and some initiatives might cost more initially but become more efficient over time. VFM cannot be a static measurement but is about making the best use of resources available in different business environments that gives the organisation the best outcomes at that time. For different housing associations this will mean different things and for the same organisation it means different things at various times.

Benchmarking gets you part of the way but is very narrowly focused on a few areas – you need to complement it with your own objectives and efficiency targets, set against your own capability. Having a VFM culture makes all the difference. We log all savings on an efficiency tracker and this makes everyone think of what efficiencies they are making daily.

The issue of reducing costs and working with residents is a hard one as they don't see reduced rents and they may not directly benefit from the reinvestment of savings. For example, there are difficult trade-offs between investment in services to existing residents and the provision of homes to new residents or investment in the wider community. Showing residents that the services they receive can reduce due to increased costs unless we become more efficient is really important going forward, as is persuading them that we need to generate the financial capacity to build more homes. The easy answer for residents is often to cut community investment, that is until it is gone and the impact is felt. The work we do here is often unseen and the impacts hard to measure but we know in our guts that if we withdraw, others will too.

We have achieved VFM by:

- communicating and working with residents to design and tailor services, understanding what is most important to them
- forming partnerships with contractors and different community organisations who can do things better or more effectively than we can. We learn that way as well
- disposing of loss-making properties and activities, where they are not part of our core objectives
- turning around loss-making activities and finding new ways of investing
- complete organisational buy-in to VFM, driven by the board – making sure it is everyone's responsibility and giving people the tools and targets
- looking at our business model and how we can get greater value out of our balance sheet
- carrying out services for others to bring in income
- cost reviews and reductions, eg:
  - new grounds maintenance service contract commenced in November 2011, resulting in an annual saving in the region of £230,000 across 295 estates compared with a previous annual expenditure of over £900,000. Residents on 193 (65%) estates will see a reduction in the service charge element for grounds maintenance
  - annual saving in cleaning services of approximately £100,000 from previous annual expenditure of £670,000. Residents on 238 of the 353 estates will see a reduction in their cleaning service charge
  - a review of our housing management structure following benchmarking through HouseMark, and reduced tiers of management to put emphasis on frontline services. This will reduce our overall housing management costs by approximately £80 per property
  - in partnership with three providers in London and the south east, we have established Academy4 Housing, a new social enterprise, providing accredited training for housing staff and residents. This has expanded the training centre established by TVHA into a profitable independent charitable business that is reinvesting back into employment services for residents
  - two stock transfers to other registered providers in 2011 as part of our asset management strategy of disposing of stock in non-core boroughs. This removed the projected high costs of continuing to manage this stock and the capital receipts are reinvested in the provision of more housing in core areas.

Tony Stacey, Chair of the Placeshapers Group

VFM to me has never been just about driving financial efficiencies through my business and, as chair of the PlaceShapers Group, I know that my views are shared by our 70-plus members. Yes, we routinely set and achieve targets to reduce our overheads and reinvest financial surpluses in our businesses – doing more for less has been business as usual for many years. Last year, for example, South Yorkshire Housing Association [5] took out £1.4 million of costs. This dwarfed the savings we estimated would have been generated by the merger offer that was on the table and which we subsequently rejected.

But achieving VFM is not to us just about demonstrating that we are more financially efficient and compare well against others in this respect. Crucially, it is also about demonstrating that the social returns that derive from our neighbourhood and community investment activities are legitimate VFM outcomes too.

We work at the heart of our communities and deliver considerable benefits beyond our traditional landlord services. Many of these are difficult to quantify but without doubt they contribute extensively to the government's welfare agenda and some clearly deliver significant cash savings. We have numerous examples of how carefully targeted, well-managed social investment can produce a powerful multiplier effect that levers in other resources and makes every pound go further. This could be through investment in projects to get young people into work, to provide support for more healthy living, to provide meaningful social engagement for residents who may otherwise be at risk, for example through sports or environmental improvement projects etc. Our *Localism that Works* publication[6] provides the detail on a range of these projects and shows how our wider social investment delivers vital support and great community value.

---

5 Tony Stacey is chief executive at SYHA

6 *Localism that works*, PlaceShapers Group, December 2011
http://www.placeshapers.org/?ob=3&id=37

Appendix 2: Assets: delivering and demonstrating VFM – an expert view from Savills

Appendix 2: Assets: delivering and demonstrating VFM – an expert view from Savills

The regulator's VFM standard challenges associations to deliver improved outcomes, new initiatives and, critically, more affordable housing by unlocking the value tied up in their assets.

To achieve this, associations must first undertake a systematic analysis of the long-term performance and return on their assets in order to formulate a robust asset management strategy. This should provide a basis for business-focused decisions about the future of those assets and the associations' wider activity and investment.

What is return on assets?

Return on assets, or return on investment (ROI), is a simple ratio of the income divided by the value of the assets (or funds invested). The simplest expression of this is the gross initial yield, often used for investment in real estate. The income is the pure rent net of all additional charges such as service charges. This does, however, ignore the change in the value of assets over time, which should reflect the impact of associations' investment in regenerating areas.

But what is the value? Options are:

- the value measure used for loan security or balance sheet purposes – the Existing Use Value as Social Housing (EUV-SH) – effectively provides a 'social housing return'. The measure, however, is flawed because the value is itself dependent on the rent, which forms part of the net present value (NPV) calculation used to arrive at it – effectively a circular reference

- value as defined by investment – calculated as the sum of borrowings and social housing grant (SHG). This would be an approximation to Return on Capital Employed (ROCE). A flaw is that associations tend to borrow corporately so the allocation of funding to specific properties will be artificial. Also, there is likely to be a significant difference between what was borrowed and the current value of the properties

- the Book Value – but this will be strongly influenced by the age of the asset, artificially enhancing the returns on older properties

- the Market Value Subject to Tenancies – used by lenders to reveal the value if rents increased to market levels. It is therefore highly influenced by the rental market

- the Market Value with Vacant Possession – here the value is completely independent. This measure is commonly used in the private residential sector.

The latter two options have the advantage that they reveal the opportunity cost of retaining high value properties. If, through the efforts of landlords or the operation of external market forces, market values have increased, then it may be worth considering disposing to release the increased value and subsequently investing in new delivery. It is suggested that this is what the thrust of current government policy is pointing towards. An unintended consequence of that policy may be a reduction in social housing in high value areas.

What information do you need?

As a starting point, associations will need to collate robust, commercially-focused information about the specific attributes and condition of the housing stock. This will include stock condition information, standards and procurement arrangements. Associations will also require other sources of financial and performance information, such as the 30-year cost profile, details of day-to-day maintenance expenditure, improvement and investment programmes and data associated with energy efficiency, voids and relets, demand, rent arrears, customer satisfaction, management costs etc. It is essential that there is a robust interaction with the business and financial plans in order to coordinate income and expenditure data and reflect agreed targets. In addition, information on grant allocations, loan charges and legal title, covenants or other restrictions is essential to the evaluation of asset performance.

Knowing the market in which the association works and the extent of its interaction with it is a further element within an asset management strategy. Understanding market values with vacant possession and market rents will be essential to managing in the affordable rents regime. The analysis of neighbourhood sustainability indicators, such as figures on anti-social behaviour, employment and crime, a review of community cohesion, customer profiling and diversity issues will inform the direction of travel for values, and hence the risks and rewards of investment or disinvestment.

The impact of welfare reform on housing benefit eligibility and the shape of future demand from local households mean that providers will need to understand how this will affect existing tenants and income streams. Associations should also have regard to regional housing strategies, local housing markets and affordability. This can be crucial to the evaluation of opportunities. For example, Savills and Rightmove recently published research indicating that the gap between rental demand and supply is at its highest level since April 2009. Rents in the private sector are generally increasing and in areas where rents are close to their affordability ceiling, those landlords pushing for higher returns could see an increase in arrears and voids, rather than a secure long-term rental stream. For associations operating in such a context, focused investment accompanied by regulated pricing could deliver sound returns for the business with a secure stream of tenants paying a sustainable rent.

Acquiring this breadth of information is not easy. Some associations are considering collating data in a real-time asset register in order to support ongoing monitoring and decision making. The time and resources required to source, validate and manage this exercise should be considered in terms of the value it will add to strategic decision making.

Understanding the data and agreeing the strategy

Associations must then use this broad range of information to undertake an objective assessment of current and future value and return on assets. Systematic analysis should provide detailed financial profiles based on income and expenditure to assess the financial viability and long term efficiency of the housing stock.

This stage may involve running scenario tests to assess the impact of different asset management choices and opportunities to agree on the most suitable strategy. In combination with the assessment of contextual data, this should inform the implications for viability and point to choices regarding the future retention, transfer, disposal or change of use of those assets.

These findings can bring underlying issues to the surface. For example, where housing stock is dispersed it may not facilitate effective management and maintenance or lend itself to efficient procurement. The TSA has stated that general needs stock held in dispersed pockets of 100 or fewer homes per local authority area is associated with up to 50% higher social housing lettings costs. Associations may find that they need to make difficult choices about the future ownership of that stock in order to make better use of the resources.

Finally, and central to implementation, is that an effective asset management strategy should be driven by the organisation’s corporate objectives and values. Using the earlier example, giving up a presence in a particular area and managing the impact for staff, tenants and reputation must be driven by corporate priorities. Having an evidence based approach strengthens objective decision making. Such tough issues must be governed by a clear and consistent reading of the provider’s mission and vision by all parties. The current operating environment challenges providers to think differently about what the delivery of values means in practice and the extent of its risk appetite. In doing so, providers must take a more dynamic approach to using their resources to achieve desired outcomes.

Demonstrating VFM – evidencing the VFM of assets

The asset modelling exercise we have described will allow providers to evidence the worth of their asset portfolio and develop an asset management strategy from this baseline. This will provide a framework for rational decision making and the allocation of resources whilst also assessing risk and the potential impact of different asset options.

An accompanying analysis of gross initial yields can provide useful market-orientated insights to inform return on assets.

Essentially, providers must demonstrate that their allocation of resources and investment is undertaken efficiently and is focused on where it will have the most sustainable impact. Using this principle, evidencing VFM from assets should flow from the decisions made from asset management strategy.

The evaluation of the viability of the asset portfolio on a scheme and geographical basis will suggest where there is the potential to release latent value or the potential to convert to other tenure or tenancy types to release capital or create revenue for reinvestment.

Providers should be able to make clear statements about where and how they have decided to invest in new or existing housing stock and how this translates into improved cash flow within the business plan. Other outcomes can include identifying where there is the opportunity to increase debt capacity both now and into the future, or where the transfer or disposal of stock can lead to both reduced costs and a capital receipt to the provider.

A detailed understanding of the operational context for these decisions can also assist in the holistic evidencing of VFM. The Public Services (Social Value) Act 2012 will require housing associations that procure services to consider whether an improvement of the economic, social and environmental well-being of an area can be achieved as part of the procurement process. This is in addition to having regard for the financial efficiency of expenditure. Evidencing social value should therefore be an integral part of demonstrating - VFM.

Appendix 3: Ensuring VFM: a summary of key issues for consideration by boards and executives

General issues

Does the board have the leadership and business skills to engage in a more strategic debate about running the business, ask the right questions and challenge?

Is the current balance of skills understood?
Is there a plan to address gaps?

How effective are the governance arrangements for ensuring VFM delivery?

How will the approach to VFM incorporate 'what tenants want' by including tenant insight and involvement in determining priorities?

Do you understand your operating environment locally and nationally?

Clarity of purpose as the basis for defining VFM

Are you clear about your business objectives?

Bearing in mind stakeholder interests, how will you define VFM?

How does your current approach to VFM need to change?

Does the board own the approach to VFM and hold the executive to account?

How will your approach to VFM be embedded in day-to-day activity and performance managed?

Right things

Does your business strategy focus resources on the right activities?

- Have you the right mix of activities?
- Are there things you should not be doing?
- Do you have a robust approach to making intelligent use of resource decisions:
  - clear position on appetite for risk
  - the kind of opportunities pursued
  - right information – the business case for investment:
    - cost/benefits, options, risks – this includes being clear about any anticipated social return. Important in terms of making the initial investment decision as well as judging its success
    - opportunity costs (the impact of what you cannot do as a result of taking a course of action)
    - trade-offs (the impact of what is ceased or scaled back)
    - cross-subsidy – if something does not pay its way you need to understand the extent of subsidy (as it has an opportunity cost) and benefit
- Is the board dynamic conducive to dealing with the difficult choices associated with allocating finite resources? If not, how can you accommodate a creative debate based on diverse perspectives that ultimately works to a consensus on what is best for the business?

Right assets

Have you got the right physical assets (size/type) in the right places?

Do you understand their condition, investment needs, demand, return and the business case for investment?

Do you have a coherent asset management strategy?

Have you got the right service delivery model?

Are you open to the idea of alternative delivery models?

What are the options?

Right delivery

How efficient are your processes?

How do you ensure processes are efficient?

How productive are your staff?

How do you ensure productivity?

Key disciplines – how effective is your approach to:

- performance management
- risk management
- financial management and cost control
- treasury management
- income management
- procurement
- working in partnership internally and externally

Right outcomes

How robust is your approach to VFM self-assessment?

Do you have the right information to make VFM judgements and evidence gains?

- understand the performance of physical assets
- understand the cost and performance of services, including what drives costs and how they compare – on a service by service basis as recommended by the regulator
- how will you measure social return?

How will surpluses, including efficiencies, be reinvested to produce more social value?

Thank you

We would particularly like to thank our Chief Executive Sounding Board, whose input helped form our thinking and is captured in summary form throughout the main body of the publication and in more detail in Appendix 1. Its members are:

Nick Atkin	Halton Housing Trust
Diane Bellinger	Community Gateway Association
Joe Chambers	Soho Housing Association
Kevin Dodd	Wakefield and District Housing
Keith Exford	Affinity Sutton
Paul Fiddaman	Cestria Community Housing
Mark Henderson	Home Group
Mick Kent	Bromford Group
Jon Lord	Bolton At Home
Carol Matthews	Riverside Group
Geeta Nanda	Thames Valley Housing Group
Tony Stacey	Placeshapers Group (Chair)

Thanks also to our Project Panel: **Helen Williams** and **John Bryant** at the NHF and **Ross Fraser** at HouseMark

Savills provided specialist input with regards to asset management. Their expert view is featured in **Appendix 2**. Our thanks go to **Angela Lomax** and **Mervyn Jones** for their contribution.

Finally, thanks also to **David Norman** at Devon and Cornwall Housing Group for pointing out that when we discuss VFM what we are really talking about is 'business effectiveness'.

Design by nonconform.co.uk