

Onward

VALUE FOR MONEY SELF-ASSESSMENT 2016-17



VfM Self-Assessment 2016-17

1 Value for Money (VfM)

Achieving value for money, along with continuous and sustained improvement, remains a key priority of the association. We seek to incorporate value for money into everything we do and it has become an integral part of our management and decision making process.

2 Strategy

Value for Money (“Wise Spending”) is a key strategy for the group and association and fits with the commitment to VfM.

The strategy sets out why the group and association are committed to providing high quality value for money services, and what is done to seek to achieve more for less or more for the same, where value for money savings or efficiencies can be achieved. Value for money allows the multiplication of the investment made in neighbourhoods and communities, sometimes financially but also in other terms so there is real impact and we make a real difference.

Our value for money strategy is:

“to provide core services in the most efficient and effective way possible in order to provide financial capacity for added value and enhanced services”

Our strategy for value for money is in place, not because of a regulatory standard, but because it is what a good business should be doing.

We have a clear vision of “**make a difference in the communities we serve**” and we aim to do that by delivering value for money through everything we do in order that we can do more. If we get that right we can protect what we have, strengthen our viability, retain and attract customers, invest more in neighbourhoods, communities and people and make better decisions over the risks and challenges that we face.

Our strategy sets us out on a journey of embedding value for money through our financial planning. We have developed a series of financial metrics which we implemented as part of the 2016-17 budget and financial planning and have continued to use. We are increasingly looking at our underlying surplus and contribution rates by activity and product.

We set ourselves a target surplus with four components:

- to meet our covenant responsibilities;
- to be able to cushion the risks we face;
- to invest in new services and developments; and
- to provide a social dividend (a notional payment that will be used to invest in our neighbourhoods and tenant services in future years as a payment to our stakeholders as we don't have shareholders).

VfM Self-Assessment 2016-17

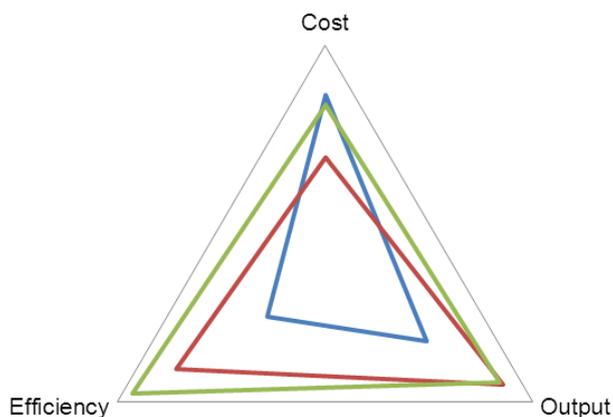
One of our strategic achievement measures was to focus on our operating margin and from 2017-18 we set out to improve the margin year-on-year focussing on our underlying surplus and embedding value for money through our budget processes and spend. We have more to do to demonstrate that the whole business thinks about value for money on a daily basis.

As our Strategy sets out, we believe in wise spending and therefore some of our benchmark costs will be higher than others as we reinvest in neighbourhoods and services and are passionate about making a difference to people's lives. Where we need to watch our spending and be more efficient is in our expenditure on overheads. Our strategic achievement measure last year was to focus on this percentage and challenge ourselves to reduce it.

3 Definitions

When we talk about value for money we are conscious that it means different things to different people. Some think that value for money is about saving money. Others focus on how things are done to look for better or different ways. The final group are concerned about improving the final product, looking at the quality or outcome. In reality, as it is for most of us and particularly for customers, it is about finding the mix of all three but deciding where to start or where to focus is not easy.

For us, the best way to describe how we might look at value for money is a triangle. If we can reduce cost but leave the output or efficiency where it is then the triangle gets bigger; better value for money. If the cost reduces but the output or outcome reduces as a result then the triangle may be smaller and value for money is reduced.



We therefore describe value for money as the relationship between the three measures. Value for money is:

“Making the most efficient use of our assets and resources to deliver high quality services that successfully meet customer needs and expectations at lowest possible cost”

VfM Self-Assessment 2016-17

There is a focus on costs but also on services and being efficient. One cannot be the others to meet our objective. To this end we have called our work on value for money as Wise Spending. Our owl reminds us that we need to look for savings and efficiencies, but wisely, not at expense of quality services for customers. After all, that is what we are all about.



4. Management and Monitoring

The Board with the Executive Team is responsible for the VfM strategy and for overall and compliance with regulatory requirements. The strategy is being delivered through an integrated approach which includes actions:

- establishing a VfM action plan documenting both efficiency improvements providing financial returns as well as increased social returns
- setting budgets and business plans which include efficiency targets and improvements to services based on action plans. We engage in rigorous sensitivity analysis assessing all risks within the organisation and have adequate safeguards in place against such risks occurring
- supporting a continuous focus on ensuring VfM is embedded within the culture of the organisation through Wise Spending as well as attendance at relevant seminars, conferences and training activities. VfM is part of our day-to-day activities and we encourage our staff to embed the thought process of treating the organisations money as their own, would they be willing to pay such a price for a particular service?
- ensuring regular and effective monitoring of efficiency targets at Board and Executive Team meetings ensuring VfM objectives are being met
- monitoring performance closely through regular analysis of performance indicators against internal targets and comparatives and benchmarked against the sector averages and similar size organisations
- ensuring attendance at regular VfM steering group meetings held to discuss the progress action plans and production of self-assessments
- enabling an annual review of the VfM strategy by Board and the Executive Team ensuring it is updated for any changes to the regulatory standard or further elements identified, remaining robust and relevant.
- ensuring clear roles for the Board to ensure we collectively adhere to the requirements of our stakeholders
- reviewing the self-assessment to ensure consistency with year-end results and the actions and activity communicated through other Board meetings held during the year

5. Prioritise Spending

The association has a robust approach to decision making and how scarce resources are rationed between competing priorities. At a strategic level the Board and the Executive Team agree the corporate priorities and themes and these are reflected in the annual plan.

Our key priority in respect of VfM is Wise Spending and we achieve this through spending less, spending well and spending wisely. Our people are vital to enable us as a business to achieve this and we rely on their knowledge and expertise to allocate resources effectively and efficiently. Through rigorous

VfM Self-Assessment 2016-17

business planning and monitoring and constant communication throughout the organisation we will continue to achieve our corporate priorities.

Our financial planning includes annual budgets prepared using a zero based approach in which proposals are created from the ground up based upon actual business needs.

The Asset Management strategy sets out how we assess the viability and long term efficiency of our assets, and we use this to inform neighbourhood asset management approaches and related programmes (including investment, change of use, transfer, disposal, demolition etc.).

6. Financial Performance

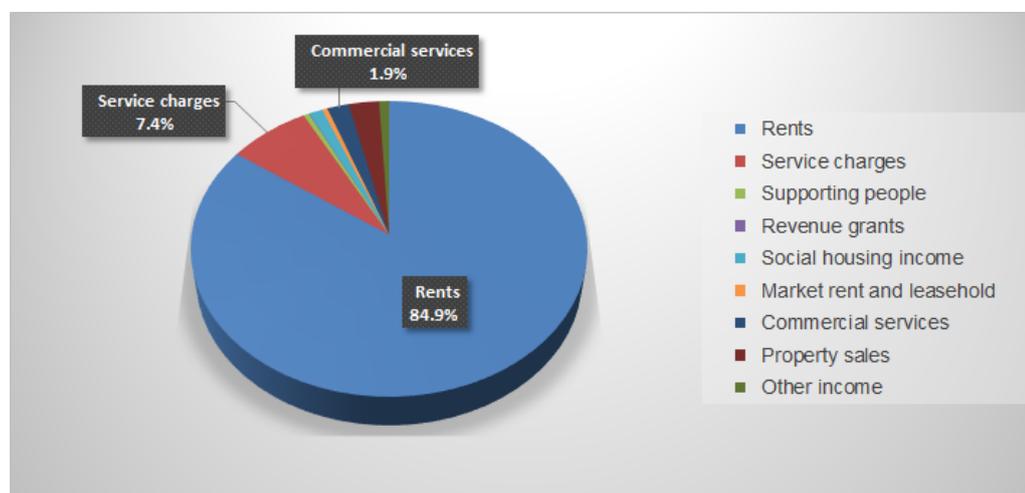
Onward continues to focus on providing VfM services to tenants from an affordable cost base ensuring resources go into providing existing and new services in addition we continue to invest into both existing and the provision of new homes. Performance against budget in the year was good although there are still some areas which could be improved.

After the pressures on costs in 2013-14 through welfare benefit reform and housing demand which led to additional empty home and repairs costs, expenditure in 2016-17 has been much more controlled and we ended the year under budget. Property related costs increased to 35% of total expenditure (2015-16: 32%), £1,194 per property. We continue to track the components of spend to understand the changes in both quantity and price.

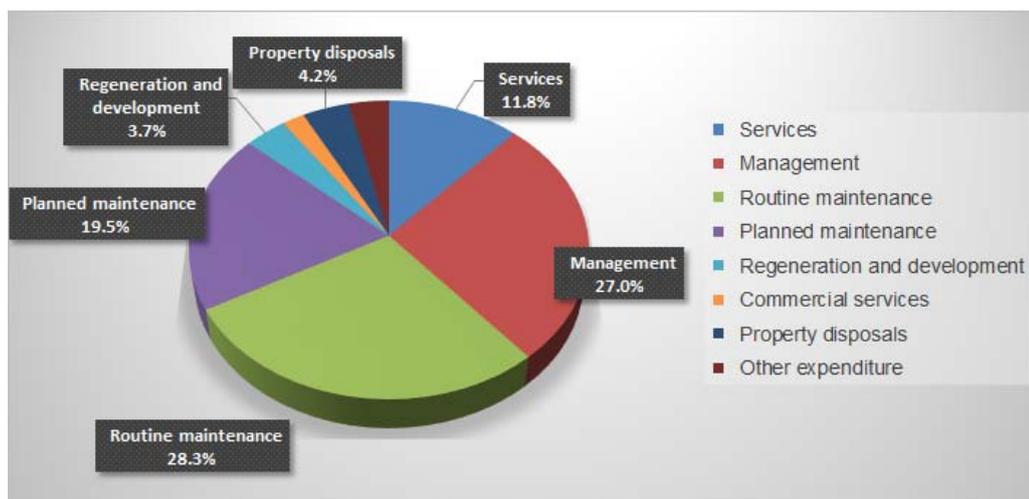
Staff costs make up 23.5% of the total (2015-16: 26.1%) but fell from £932 per property in 2015-16 to £811.

The other large area of spend is our financing charges. With low interest rates we have kept these down as far as possible in the year and the cost per property was £416 (2015-16: £434).

Our strategic approach through the financial metrics continues to focus our minds on financial performance and the need to eliminate unnecessary expenditure in the business so it can be redistributed.

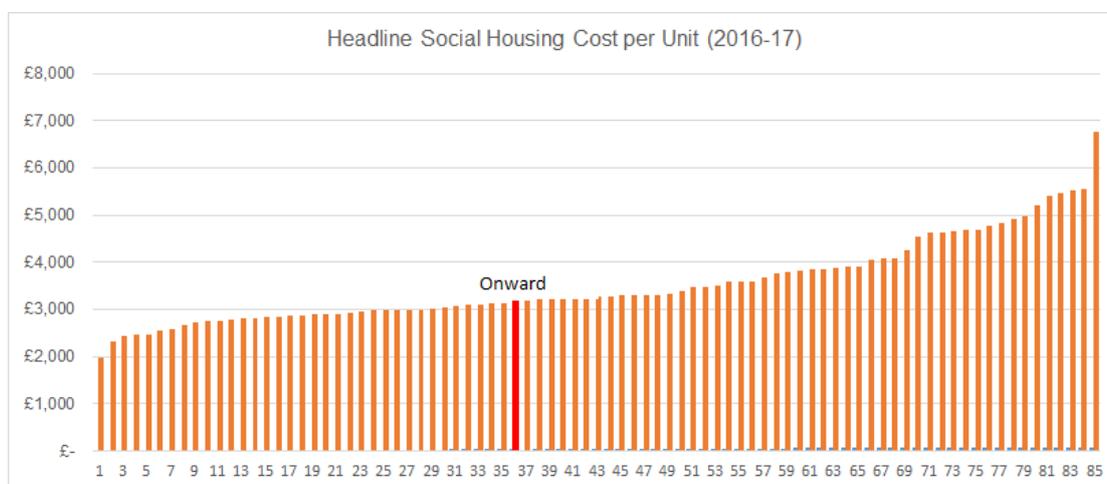


VfM Self-Assessment 2016-17



7. Benchmarking

The association benchmarks its costs and performance on a verifiable like-for-like basis with other organisations. For benchmarking purposes we compare ourselves with all housing providers who have a similar profile to ourselves working outside of London but some are smaller than us or involved in a slightly wider range of activities. This all-inclusive group was chosen as no particular model or size has a monopoly on efficiency or good practice.



The headline social housing cost per unit for Onward as at March 2017 was £3,186. Against data available at the time of publication comparing ourselves to 84 others we ranked 36th (second quartile). The largest component of this spend was routine maintenance which formed 40% of the total.

We are also now tracking this benchmark figure into the future through our financial planning. The headline social housing cost per unit for 2017-18 is expected to be £3,850 after accounting for restructuring costs. This would put us 62nd in the current table (third quartile) but this position will include the exceptional costs. Ignoring these would move us to just above the median point with a cost per unit of £3,634.

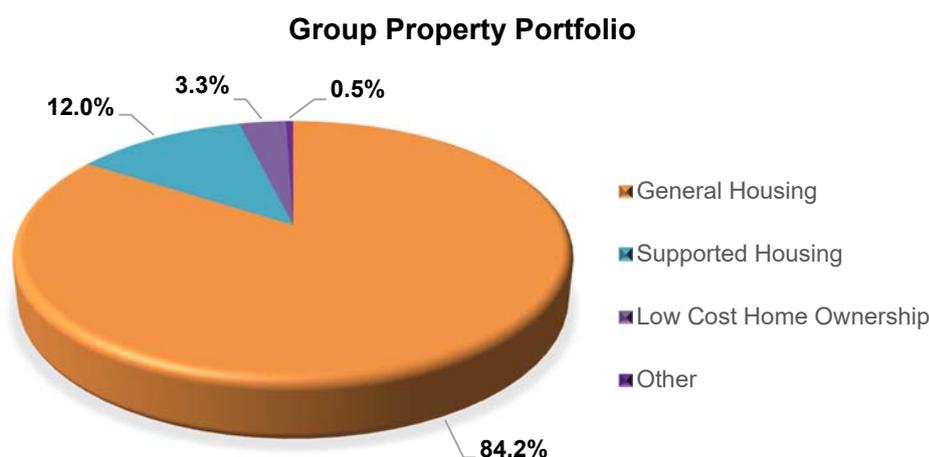
8. Return on Assets

This past year has continued to see the development of us understanding the costs being spent in each neighbourhood. We analyse the data across 55 neighbourhood areas and focus our efforts on distinct plans and projects for these. The data used in this way is both performance and financial. 2016-17 was the first year of the neighbourhood concept across the whole of Onward and the roll out of new performance measures and reporting dashboards.

This neighbourhood approach helps us to understand how we are using assets and getting the best use from them. During 2016-17 we have continued to progress a number of projects, either by way of investment or disposal after a detailed options appraisal and review of the neighbourhood impact.

Over the past year we have continued to review the data available and are looking at a number of options in relation to the outliers from the data.

Each member of Onward currently has its own asset strategy reflecting their size, operational area(s), stock profile, heritage and business needs. We are beginning to bring this together with one asset strategy being considered by the Board in late 2017.



As indicated by the chart, over 96% of the properties that are owned by Onward are general needs and sheltered or supported housing. Therefore, they are a key focus within our key management decisions as well as the Asset Management Framework.

The key considerations when making management decisions involve:

- Ensuring adherence to our asset management strategy;
- Data management – outcome of our regular and robust stock condition surveys;
- Asset register, providing details of specific charges against properties;
- Audit and risk management reports;
- Option appraisals – considers the financial performance of individual properties;

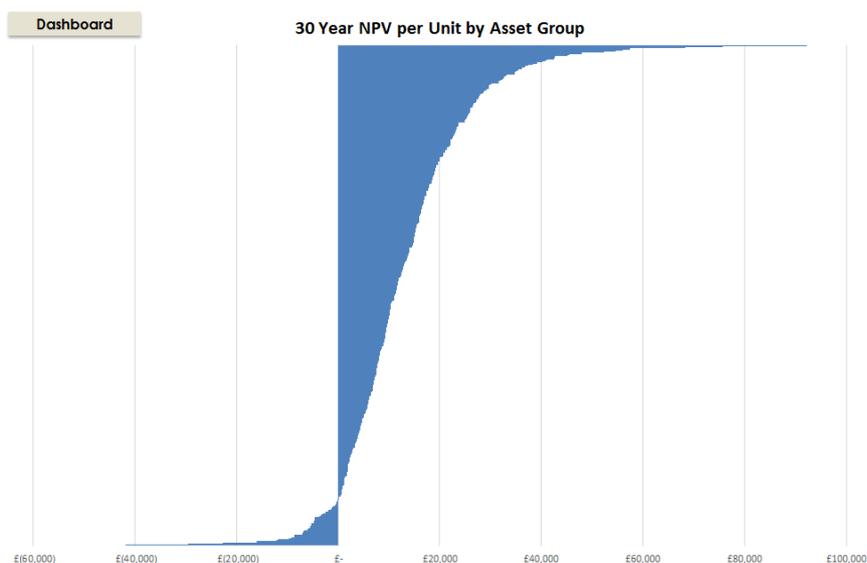
VfM Self-Assessment 2016-17

- Stock Rationalisation – due to our structure this is a useful and effective VfM tool, as it provides the option to transfer properties from one organisation to another where greater productivity can be achieved;
- Tenant consultation – the needs and requirements of our tenants are extremely important and a key factor within our decision making. This also enables us to enhance the social value our properties provide to tenants; and
- Impact of the Welfare Reform – as with all associations within the sector, we have been affected by the introduction of welfare reforms, including the 'Under-occupancy' benefits reduction and, in some cases, Universal Credit.

One neighbourhood has a significantly lower return on net assets than any of the others and we are looking at this area in detail, although there are very few properties in the neighbourhood. The average return on net assets is 14.65%.

Through our Asset Management Strategy we will address these by assessing the overall effect of decisions as well as the local impact. In a number of areas we are exploring asset management solutions, to consider changing tenure or ownership of properties to make a positive difference to the neighbourhoods. This systematic approach ensures that key decisions, in respect of our assets, are taken with a clear and transparent understanding of their respective returns and operational performance.

The model to assess our return on assets is a model which involves financial and non-financial indicators to inform strategic decision making ranging from, continual investment in stock through to the disposal of identified assets. We commissioned Savills to support the development of a 'dynamic' approach which will evaluate the financial performance of all Onward properties to categorise assets based on their Net Present Value (NPV). The model has recently been refreshed and we are examining preliminary results enabling a rounded view of the performance of each asset combining financial data alongside social and environmental variables to assess suitability for retention or alternative use.



VfM Self-Assessment 2016-17

Potential categories modelled as indicated for the above illustration.

Risk Stock (red)

Properties, schemes or archetypes that suffer from low demand, high turnover, high maintenance costs, ASB and large investment requirements and have both negative cash flow projection and poor sustainability score.

Appraisal Stock (amber)

Properties that might suffer from some demand or turnover issues, as well as high maintenance costs but focused investment, remodelling or change of use could be made to generate a positive cash flow projection and positive sustainability score.

Core Stock (green)

Properties that have high demand, low turnover, low maintenance costs and minimal investment requirements. Any property ranked as core can have funds invested on an on-going basis through planned and cyclical programmes.

Some core properties may be placed into the appraised category where it is deemed that there are commercial opportunities, or alternative economic gain from rationalisation of stock, both internal and external to Onward under our VfM principles and strategy.

The development of the model will allow Onward to use a single consistent active management tool to evaluate assets using the same indicators within a real time model. This will achieve a robust understanding of the return on our assets involving:

- Measure the long term performance of our property profile
- Use modelling techniques to analyse our assets value and contribution to the financial plan
- Provision of an objective baseline in which to make investment decisions
- Identify properties requiring an option appraisal

On completion of this work we will be in a position to identify which assets are performing well and those, which are performing poorly. Work will then commence on a detailed review of poorly performing assets to determine the most appropriate option. The analysis of the performance of all the assets within the model will lead to recommendations ranging from selling assets on the open market, reconfiguration of assets to meet local needs and aspirations through to no action as well and continue to invest. Having a detailed understanding of the performance of our assets through a model that combines a financial and sustainability assessment of each asset which will allow us to target resources, meet current and future needs and provide opportunities for cross subsidy to develop new homes.

9. Social Return on Investment

Onward generates social impact from a wide range of activities ranging from financial inclusion, resident involvement, building new homes, providing homes for people in need and promoting environmental sustainability.

We have adopted a process which has allowed us to embed social value into our development programme more effectively. Contractors are now expected to produce an employment and training plan which links opportunities for tenants and offers different social value options ranging from apprenticeships to work experience.

VfM Self-Assessment 2016-17

We have also adopted a points system for contractors bidding for contracts such as gas servicing contract which allows contractors to choose different social value contributions up to the required 2% social value contribution for the contract. The quality of the social value offer is then scored and reported back to our procurement team, progress is monitored through local community investment staff.

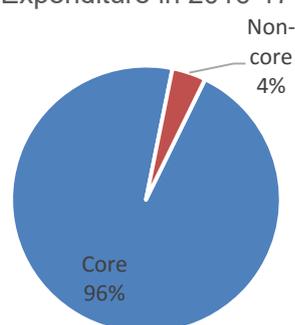
We have undertaken further training programme with Community Investment staff across the Group using HACT's Value Insight system which allows us more accurately to collate social value results, upload evidence and helps us to make better investment decisions. We have regularly consulted HACT in order to ensure accuracy in our assessment and once again this past year we published our Social Accounts which verified the accuracy of our social impact work with a panel of external organisations and made recommendations to improve our work in 2017-18.

Projects we invested in that impacted on our social value, prioritising key areas of activity included:

- Employment and training (jobs clubs, jobs fairs, training courses, residents into work, job readiness, and self-employment);
- Health and well-being (exercise, sport and support with mental health issues);
- Community Development (strengthening and supporting organisations and groups such as food banks, digital skills training).
- Supporting young people (supporting youth clubs, offering a variety of activities for young people and contract managing grant programmes for Liverpool City Council)

During the year we have started to quantify the amount spent on our social return on investment or activities over and above our core activities which are not commercial. 7% of our activities fall into this category – just over £3.3million.

Expenditure in 2016-17



- Homeless hostel - £638,000
- Healthy Living centre - £405,000
- Financial inclusion and welfare benefit advice - £408,000
- Community regeneration - £2,187,000
- Environmental improvement projects - £476,000
- Adaptations - £1,300,000
- Tenancy support - £67,000
- Other non-core activities - £204,000

10. Delivery of VfM Gains

Onward is constantly looking for ways to make efficiency gains, not necessarily by adding to the 'bottom line', but to maximise the value we create by reinvesting the efficiencies into our operations to support the

VfM Self-Assessment 2016-17

delivery of our business objectives and spending priorities. In 2016 the Board set a stretch target of £1,863,000 for efficiency gains.

Performance was as follows:

	2017 Annual Target £000	2017 Actual £000
Efficiency realised through		
Income Generation	-	135.8
Asset Management	961.0	1,112.4
Administration	652.0	374.7
Capital and Development	250.0	560.8
Total	1,863.0	2,183.7

This was a good performance in a year of much change during a time when it would be easy to be distracted. We know though that there is more to do and administration including management costs are an area for us to focus on in the next twelve months.

We look to reallocate savings and efficiencies made in the year into a "pot" which is then allocated to front line or community services and benefit. This achieves an element of transparency as to what money saved is then used for. It also gives an incentive for the generation of efficiencies as people can see what services and communities will benefit. £100,000 was specifically allocated to neighbourhood projects during 2016-17 and a further £100,000 was earmarked for community development projects in the next three years.

11. Future VfM Gains

The Board has also set a further series of efficiency gain targets for 2017-18 and beyond.

	2018 £'000	2019 £'000	2020 £'000
Target	1,731	3,462	3,462

The target of £1.7m is made up of a target for savings through the restructure which may be staff related or linked to improved processes and efficiencies, plus procurement savings through working better as one organisation. The full year impact of these is planned to come through in 2018-19.

The Board will continue to monitor performance against this target. We will reassess the target to make decisions regarding the reinvestment of resources back into operations to meet business needs and objectives as appropriate. The Wise Spending initiative has helped to communicate the message around value for money through Onward but we know we can still do more.

VfM Self-Assessment 2016-17

A focus for 2017-18 is building one organisation and reviewing how we do things so we can be as smart as we can be in how we do things. It is clear that the more we do consistently, the better the efficiencies are and therefore we need to ensure that we are taking every opportunity to work together and review historic practices.

We will be continually challenging our people to come up with further ideas that we can implement towards the target the Board have set us to achieve. We have set this target as being something to aim for rather than a number which is automatically achievable.

12. Future Approach

In terms of approach we believe that value for money is something that is really not that complicated. We all do it in everyday life. Day by day we make decisions on where we shop, what kind of service we expect, what we can afford and whether something is "worth it".

Creating a value for money culture in Onward is about exactly the same things, but becomes more difficult as we sometimes forget the principles as it isn't our own money and even more difficult when we don't all necessarily agree on the standard or quality that we want to achieve.

We believe that we do make careful decisions about spending money and go through appropriate processes but this doesn't mean we can't ask better questions and challenge ourselves more. We plan in 2017 and beyond to have another think about our budget processes and focus on making decisions about the priority areas rather than spending all our time on the detailed analysis.

