



Value for Money (VFM) Statement 2017/18

The Board has confirmed that Westward is compliant with the Regulator of Social Housing (RoSH) latest VFM Standard.

The purpose of the VFM Statement is to publish Westward's performance against the seven mandatory VFM metrics, as required by RoSH. This information is key in demonstrating how the Board have approached VFM in order to balance the following strategic priorities:

- Efficiency of our services
- Economy in utilising our resources
- Effectiveness in fulfilling our duties
- Balancing our investment needs in existing and new homes
- Meeting our values and social purpose aims
- Maintaining long-term viability

The Board has also published additional VFM data in the format of the Sector Scorecard as developed in collaboration with the National Housing Federation (NHF) and its achievements against its VFM ambitions.

Westward participates in two regional Sector Scorecard benchmarking clubs. One of which is a collaboration of housing associations whose aim is to assess capacity in order to deliver more homes in the south west of England (H4SW). The other club is a collective of housing associations participating in the South West Data Collection. The members of this group have agreed to share their Sector Scorecard data for the purposes of benchmarking efficiency.

Sector wide benchmarking is also undertaken through Westward's membership of the Housemark benchmark partnership and the use of comparison data obtained from the Global Accounts database. We also compare ourselves to other service providers through the Institute of Customer Services.

Further information is available on our website www.westwardhousing.org.uk and provided to customers and stakeholders.

VFM Metrics

The new VFM standard requires us to report on the suite of VFM metrics below and explain where we are underperforming. The table below presents the Board's VFM trend outcomes, measured in line with the seven metrics as defined in the new RoSH VFM Standard:

	RoSH VFM Metrics	2018	2017	2016
I.	Reinvestment (investment in existing stock and New Supply as a % of value of total properties held)	4.97%	7.14%	6.55%

RoSH VFM Metrics		2018	2017	2016
2.	New Supply			
	New supply delivered – social housing	1.73%	1.98%	1.14%
	New supply delivered – non-social housing	0.16%	0.36%	0.00%
3.	Gearing	33.09%	34.90%	34.00%
4.	Earnings Before Interest, Tax, Depreciation, Amortisation (EBITDA) MRI (as % of interest payable)	243.16%	192.75%	133.42%
5.	Headline Social Housing Cost Per Unit (CPU)	£3,157	£3,356	£3,622
6.	Operating Margin			
	Social housing lettings only	31.82%	34.88%	30.51%
	Overall group operating margin	31.23%	32.06%	29.31%
7.	Return On Capital Employed (ROCE)	4.00%	4.28%	3.18%

The three-year period reviewed above shows a consistent reduction in Westward's headline unit costs for its primary social housing activities. The positive trend in real unit cost reductions has been achieved through a focus on efficiency gains and budgetary control economies, whilst ensuring that Westward continues to meet its social purpose aims and its legal duties. The progressive reduction in the reinvestment metric is a consequence of the Group's investment cycle in its former local authority owned housing stock in North Devon. The level of reinvestment in these properties has tailed off from its peak in 2015/16 as more of the properties have now achieved the 'Westward Standard'.

The strategic project outcomes below have positively influenced the VFM trends in the above metrics:

- Amalgamation of three registered providers into a single entity in June 2016
- Strategic plan growth of 305 new homes delivered since 2016
- Procurement programme has created cost savings of £1.25m since 2016
- Gift-Aid returns of £2.3m since 2016 from Help to Buy and open market sales

Looking ahead, the following VFM projects are in train:

VFM Project	Efficiency £'000	Timescale
New target operating model	220	April 2018
Mixed economy model for repairs services	200	April 2018

Active asset management	200	April 2018
Procurement programme	500	2018-2020

As part of its strategic plan growth Westward will also deliver 195 new homes between 2018 and 2020.

Our Approach

Our approach to VFM is to reduce headline unit costs through operating efficiencies and cost savings to off-set the downward pressures on our revenues arising from the -1% rent cut and the impact of Welfare Reform.

The intended result of our VFM aims is to achieve financial returns from operating activities that support Westward's Strategic Plan priorities to invest in both its existing and new homes.

We also seek to create additional capacity through the active asset management of poor performing property assets and through Gift-Aid of profits from our administration of Help to Buy South West and a modest open-market homes for sale programme.

Our annual asset management investment is £12m. This is derived a £50,000 average reinvestment sum per home. Component replacement lifecycles have been retained at their 2015 levels, that is, pre the four year -1% rent cut. The Board took this decision in order to ensure that our homes are maintained to the Westward Standard.

Where the cost of maintaining the property is more than the expected income, over the life of the property, (i.e. a negative NPV), we review the options available for the building. All Westward properties with a negative NPV is considered for options appraisal as part of our asset management.

It is our policy not to plan for property disposals including the staircasing of our shared ownership. However, all disposal proceeds are helpful in adding more financial capacity as and when they arise.

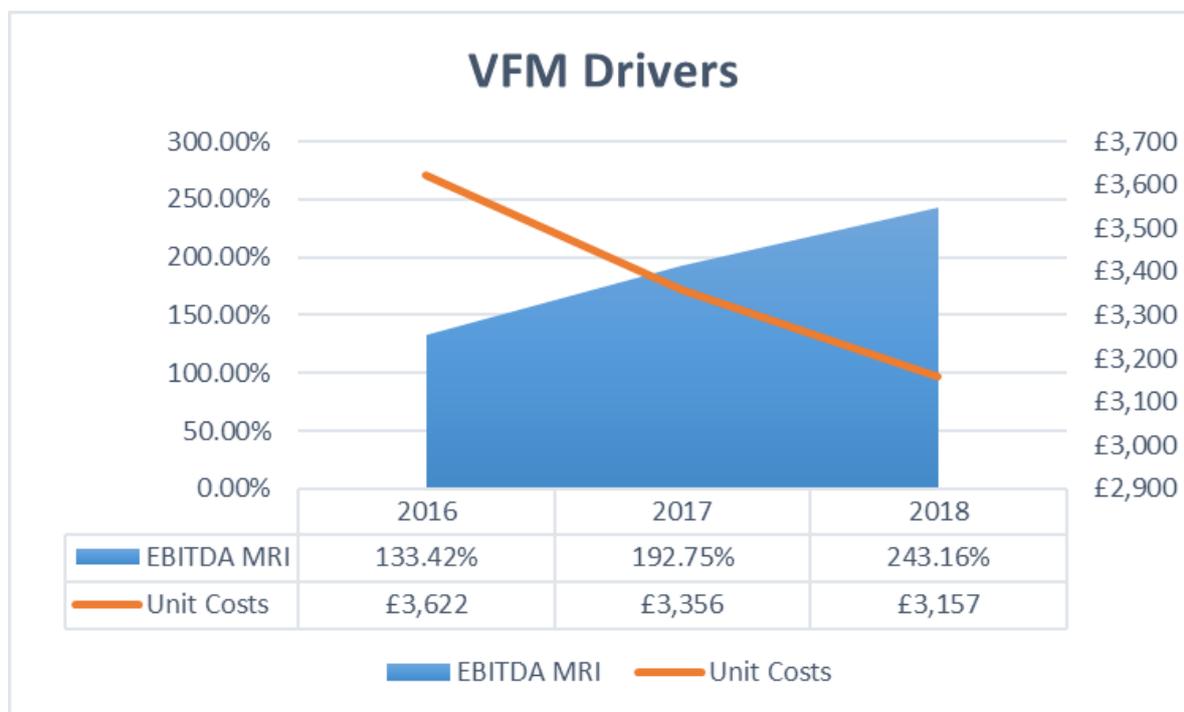
The Board's rule for operating returns (measured as EBITDA MRI) is that they must always be at least 125% of interest payable on our loans. This rule is an essential part of the Board's Strategic Financial Framework (SFF) that is deployed to ensure the long-term viability of Westward.

The Board's rule for the ratio of Westward's debt to its equity is that loans less cash must be less than 70% of the association's net worth at all times. This is designed to stay within our lender's tightest covenants and thereby ensure that Westward does not exhaust its financial capacity and/or take on too much debt. Our gearing measure is influenced by: annual net surpluses and new borrowings taken on/repaid each year. The relevant SFF gearing ratio as at March 2018 was 52.4%.

The efficient conversion of our operating returns and property disposals into cash enables us to minimise our borrowing requirements and thereby effectively manage Westward's gearing of debt to equity. Our selection of EBITDA MRI to measure Westward's operating returns helps us to achieve these aims as it is deemed to be a good proxy for operational cash flow.

Looking ahead, the Board is keen to maximise the utilisation of its capacity to deliver more much needed new homes. To this end it will be considering a business case to increase its rule governing the ratio of debt to equity.

The following chart demonstrates how Westward has driven VFM through unit cost reductions, creating more EBITDA MRI capacity. This additional capacity will be utilised in Westward’s new home building programmes.



Driven by Board, delivered by everyone

The Board drives VFM via our VFM Strategy; it is embedded within our culture via our strategic objective to ‘**maintain our financial strength and deliver great value through efficiency and innovation**’.

Everyone is responsible for VFM; our Board, staff, customers and partners use VFM principles to:

- Make the best use of resources and create new resources
- Get the balance right between performance, satisfaction and cost
- Get the balance right between investing in new homes, existing and new services, and social investment

Success in VFM is synonymous with success in achieving our strategic objectives; these help staff, Board and customer groups achieve our business goals on a daily, weekly, monthly and annual basis and delivery is through our annual business plan. Deliverables against the business plan are shown in section 4 of the Strategic Report to the 2018 Financial Statements.

VFM assurance

Our processes to provide assurance that VFM is embedded, managed and monitored are also detailed in our VFM Strategy. These assurances involve the Board, Audit and Assurance Committee, Executive Team, staff and customers and include targets, reports and external assurance. VFM metrics are assessed during budget and business plan updates. Individual projects are assessed for VFM impact as are our KPIs and actual performance.

Our Economic and Social Impact

We believe that housing associations have a positive impact on the UK Economy. This economic impact is significant in terms of both financial and social value.

We have assessed Westward's economic impact across its local communities in the following table. The value of our homes is based upon an existing use value for social housing. The good quality employment we offer for our staff is simply value as our wage roll plus on-costs. Our contracts are based upon an annual average of both our day to day activities and capital expenditure. Westward's social value is measured with reference to the Housing Association Charitable Trust (HACT) social value calculator tool.

Westward's Economic Impact	£m
Value of our homes	347
Value of our jobs	8.75/annum
Value of our contracts	29/annum
Social value of our services	25/annum

How do we compare?

Westward has utilised the new Sector Scorecard developed by the NHF to participate in benchmarking and new homes capacity discussions with its fellow south west housing associations.

Inaugural Sector Scorecard results

(Note: RoSH data for 2017/18 will not be available until later in 2018/19 and the sample is from 8 South West housing associations including Westward)

Business Health	RoSH	South West HAs	Westward
Operating Margin % (overall)	<input type="checkbox"/>	29.81%	31.23%
Operating Margin % (social housing lettings)	<input type="checkbox"/>	33.73%	31.87%
Earnings Before Interest, Tax, Depreciation, Amortisation (EBITDA) – group level	<input type="checkbox"/>	263%	243%

Development Capacity & Supply	RoSH	Sector (Peers)	Westward
New Supply Delivered – absolute (social and non-social)	<input type="checkbox"/>	158	138
New Supply % (social and non-social)	<input type="checkbox"/>	2.33%	1.93%
Gearing	<input type="checkbox"/>	44.62%	33.11%

During 2018.19, Board will consider a revised ‘Gearing Golden Rule’ with a view to utilise more balance sheet capacity for new development. The aim will be to enable Westward to increase its development capacity by 10% and build a further 90 new homes between 2019-2025.

Outcomes Delivered	RoSH	Sector (Peers)	Westward
Customer Satisfaction	X	85%	41.7 NPS 89.9% Repairs 89.1% N’hood 92.5% Quality
Reinvestment (includes revenue improvements, cyclical and capitalised components)	<input type="checkbox"/>	5.58%	4.98%
Investment in Communities	X	N/A	£200k

Westward does not measure satisfaction in line with STAR guidance which is used for the Sector Scorecard. Westward uses a monthly Net Promoter Score (NPS) which is a customer loyalty measure and focuses on satisfaction with the repairs service and neighbourhoods as well as the quality of customers’ homes. The NPS also allows us to compare ourselves with others from outside of the sector.

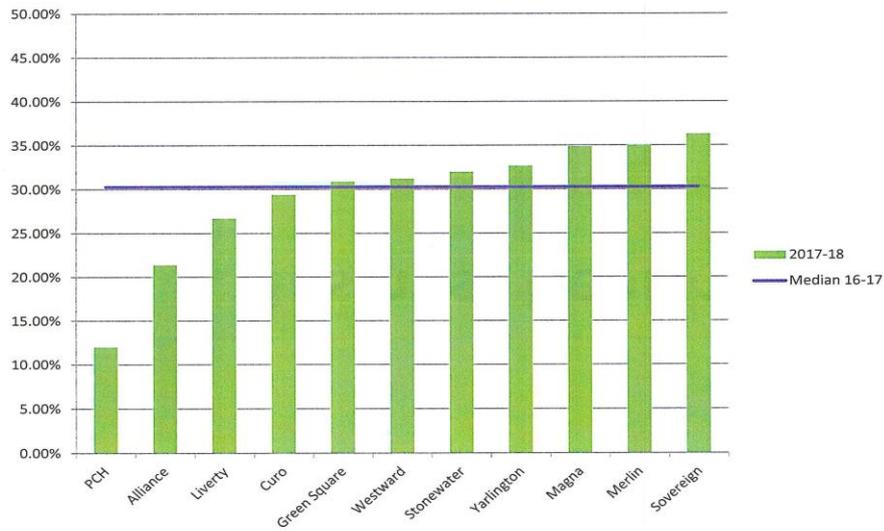
Effective Asset Management	RoSH	Sector (Peers)	Westward
Return on Capital Employed (ROCE)	<input type="checkbox"/>	4.43%	4.01%
Occupancy	X	98.93%	99.50%
Ratio of Responsive Repairs to Planned Maintenance	X	59.93%	40.01%

Operating Efficiencies	RoSH	Sector (Peers)	Westward
Headline Social Housing Cost per Unit	<input type="checkbox"/>	£3,287	£3,157
Rent Collected (from RoSH quarterly survey)	X	100.27%	100.40%
Overheads as a % of turnover (this measures Central Services overheads only)	X	9.47%	7.03%

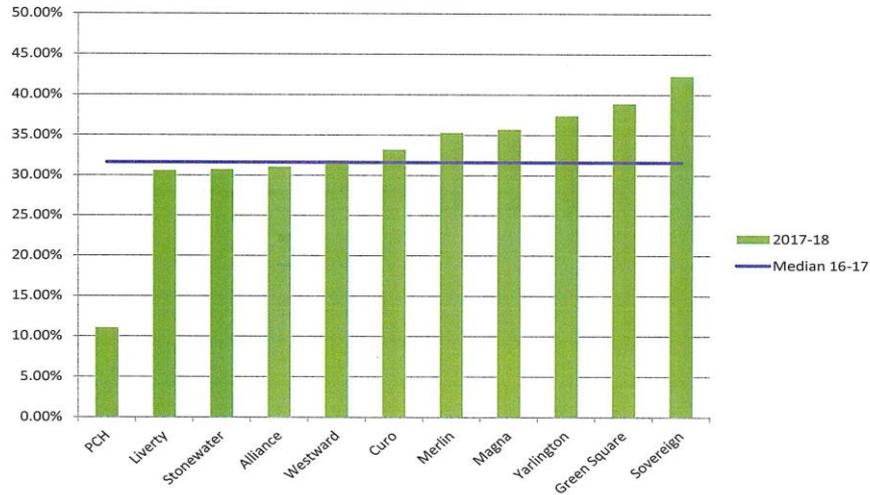
The following graphics provide benchmarking information for all the housing associations who are members of Homes for South West (H4SW).

Business Health Benchmarking

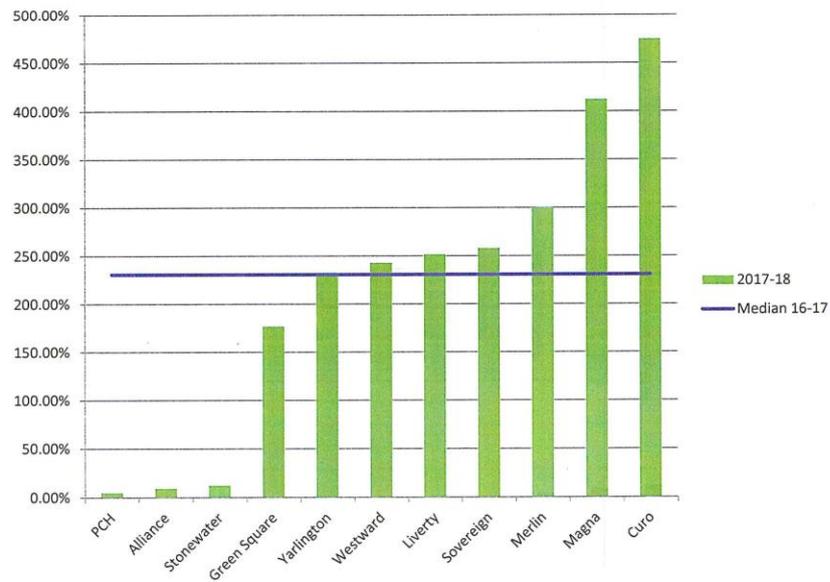
Operating Margin



Operating Margin (social housing lettings)



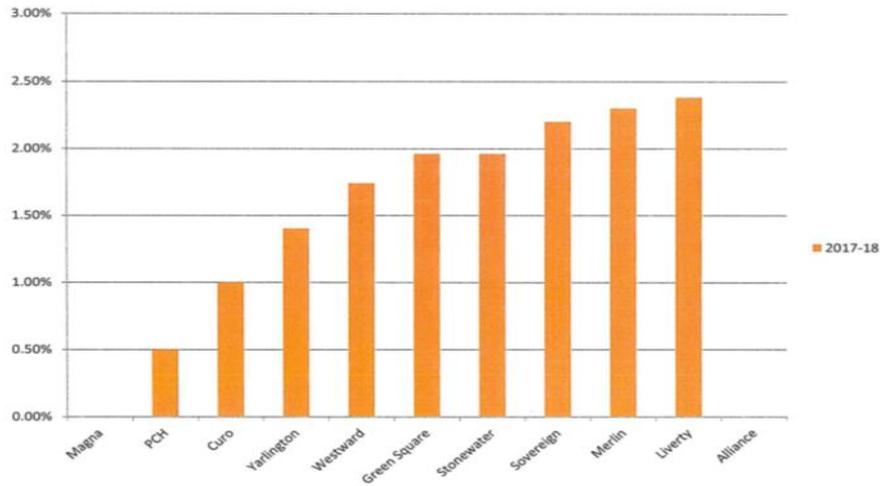
EBITDA MRI (as % interest)



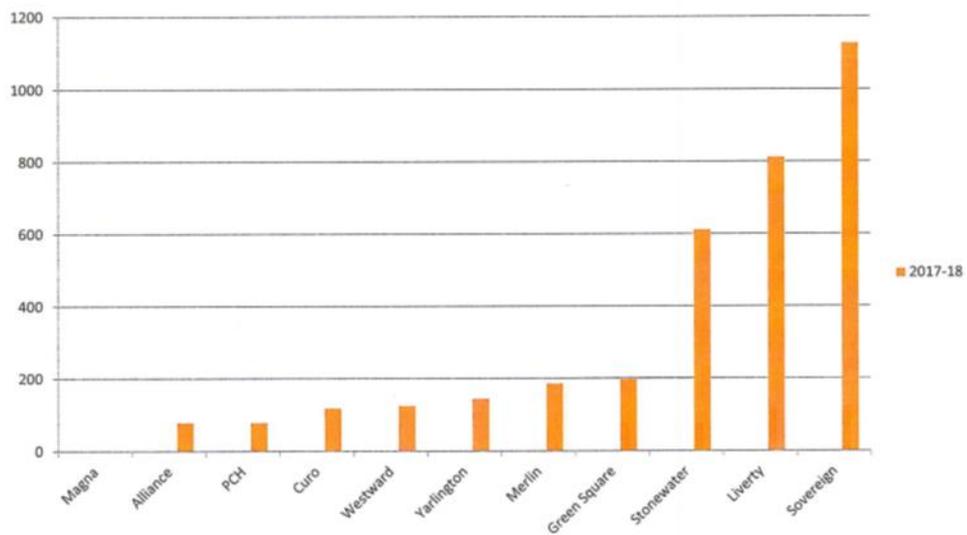
Westward is in the median range for the business health metrics and appears to have a satisfactory health index as compared to the peer group.

Development (capacity & supply) Benchmarking

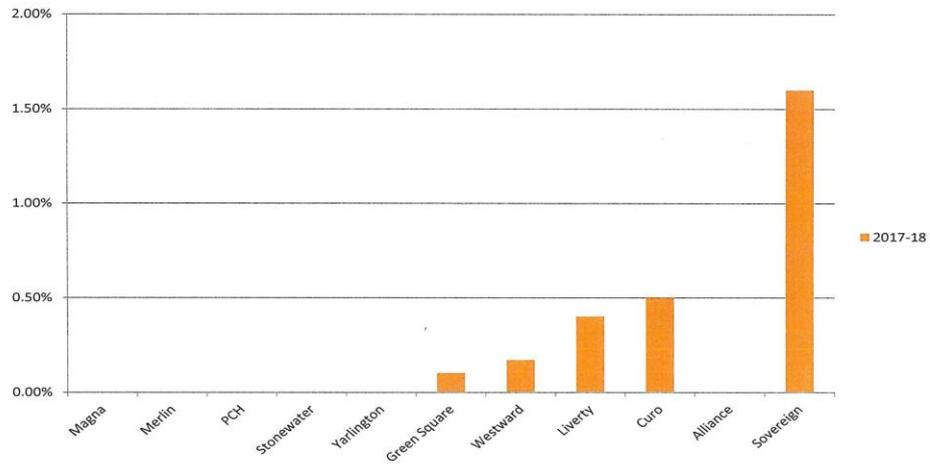
% New supply - social units



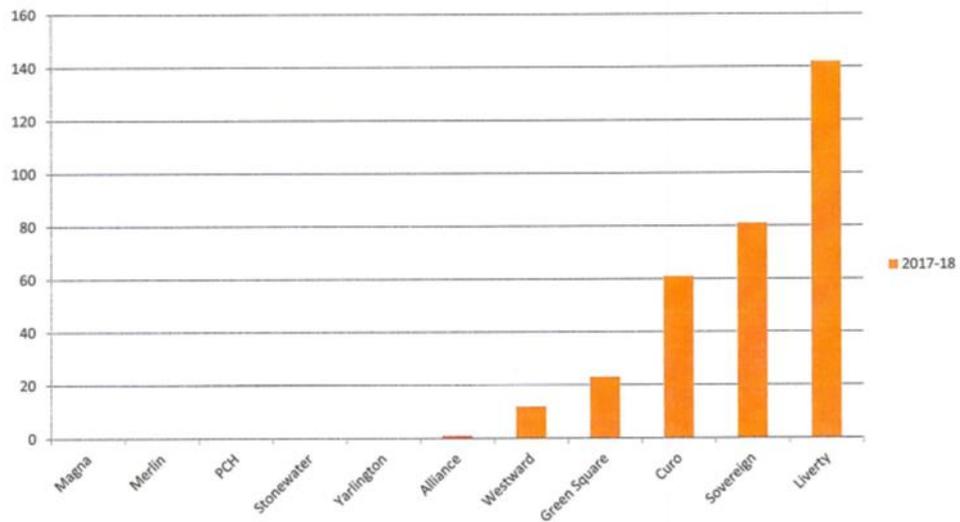
New Supply absolute – social units



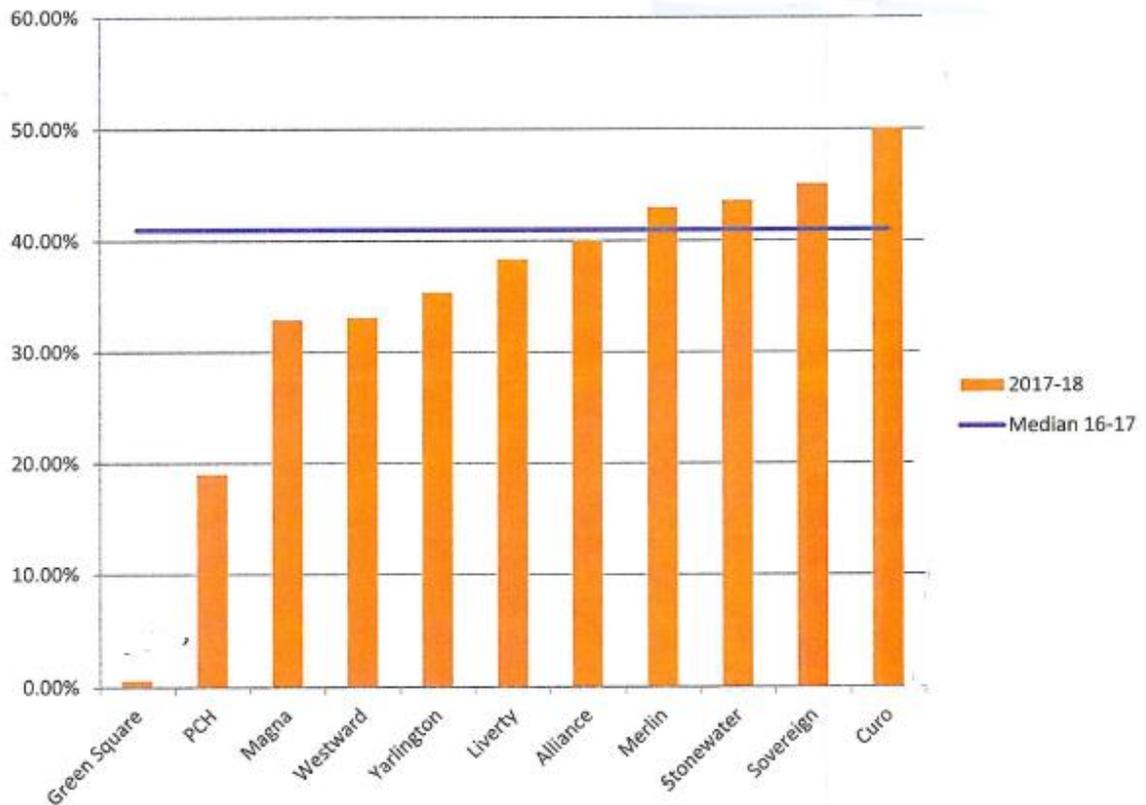
% New supply – non social units



New supply absolute – non social units



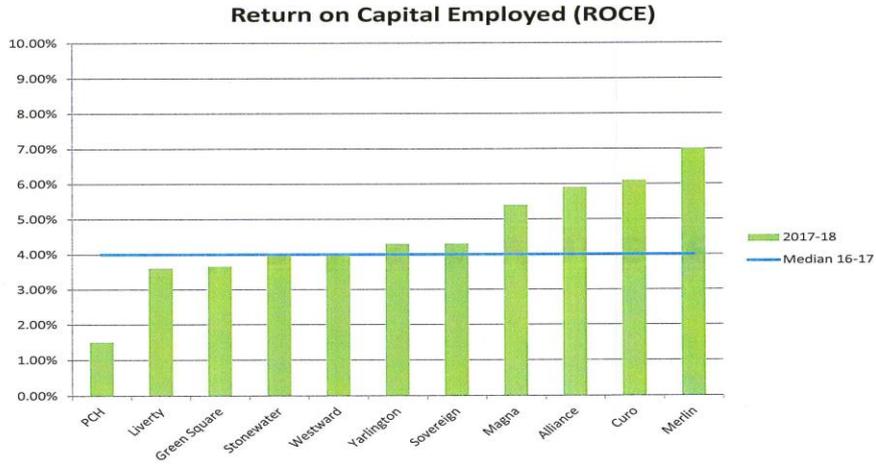
Gearing



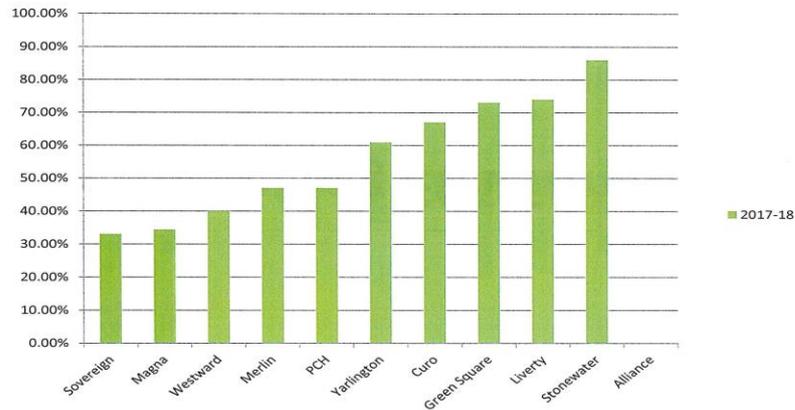
Westward Board are reviewing their golden rule for gearing during 2018/19 with a view to release more capacity for future house building.

Effective Asset Management Benchmarking

Return on Capital Employed



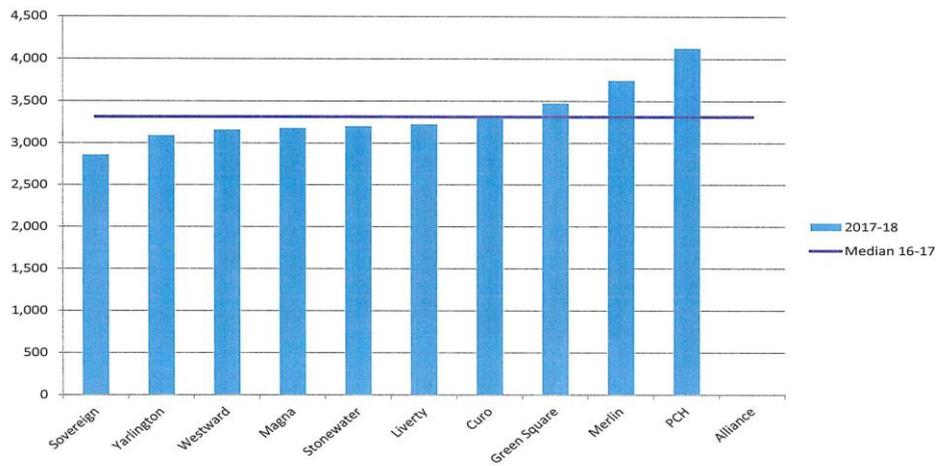
Ratio of responsive repairs to planned maintenance



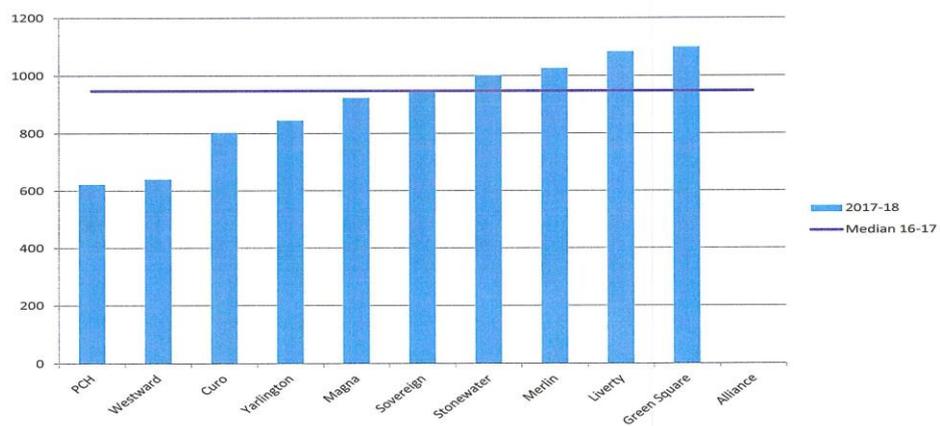
Westward is at the median level for ROCE and at the top end of the peer group for its asset spend going into building improvements.

Operating Efficiency Benchmarking

Headline Social Housing Cost



a) Management CPU



Westward is in the top end of the peer group for unit cost efficiency measures.

Other Benchmarking

RoSH publish comparative cost per unit (CPU) data from the accounts of housing associations and we have calculated our CPU data for 2017/18:

HCA CPU	Westward 2017/18	South West HAs 2017/18	Westward 2016/17
Management	£640	£784	£624
Service charge	£536	£299	£503
Maintenance	£889	£883	£905
Major repairs	£888	£1,006	£1,280
Other social housing	£203	£199	£447
Headline social housing	£3,157	£3,281	£3,756

Note: Westward's service charges are influenced by its relative level of supported housing versus the other 7 housing associations in the latest benchmark sample. The service charge unit cost comparison based on the 2016/17 Global Accounts is £530.

Delivering our VFM ambitions

In previous years, Board agreed annual VFM ambitions and reflected on our progress with customers. Our achievements against our 2017/18 VFM ambitions are set out within this statement; however this is the final year of setting and reporting these as our approach has evolved to be more streamlined and accountable.

VFM ambitions	Comments
1. Achieve our targets for:	
Net rent arrears – 1.2%	1.1%
Bad debt – 1.5%	0.66%
Rent lost to voids as a % of gross annual debt – 1.0%	1.03%
2. Review benchmarking results and consider appropriate action	Reviewed staff turnover, absence, relet times and estate services. Further work is to be carried out on staff turnover and re-let times.
3. Achieve VFM cashable savings of £500k	£1.025m of VFM savings have been recorded during 2017.18. Of note, £799k savings and a further saving of £115k has been achieved by signing up to the Procurement of Housing Framework for the use of Agency staff. Over the last six years Westward have delivered £2.6m of cashable savings through its membership of the Advantage South West procurement consortium.

VFM ambitions		Comments
4. Deliver community investment action plan (including measuring and monitoring our social value impact)		The social value of our services using the HACT model is £25m per annum.
5. Achieve 20% stock inspection and 100% by 2018/19		On target with 97% completed to date; Ridge Associates to complete external validation of our surveys during 2018/19.
6. Achieve carbon reduction target of 2.9 tonnes of CO2 per property per year by Mar 2020		This data is no longer available due to changes in the green energy contract ownership and administration. Our VFM focus for property assets will be on tangible monetary efficiencies in 2018/19.
7. Achieve a minimum SAP (energy efficiency) rating of 55 per property by Mar 2020		262 properties (3.5%) are currently below the minimum SAP rating. Action plans including option appraisals being identified for these properties during 2018/19.
8. Deliver board's asset stock priorities for 2017/18		Strategy approved by Board in June 2017. Audited December 2017 with substantial assurance. Annual report to March 2018 Board providing update on actions delivered in 2017/18 and to approve actions for 2018/19.
9. Continue to monitor and evaluate WISE pilot project		1,460 customers with a My Account. 2,777 customers paying by Direct Debit.
10. Resolve 99% of complaints at stage one by Mar 2020		Achieved 97%
11. Achieve actions from customer mystery shops		Our involvement model continues to incorporate a range of feedback opportunities for customers - ranging from the scrutiny provided by our Customer Senate to monthly independent telephone surveys drawn from recent customer contact to a new digitally based engagement initiative for customers to provide us with real time feedback. All designed to maximise the ways in which customers can give us valid feedback in a way that works for them.
12. Net Promoter Score of 55 by Mar 2020		Achieved 41.7
13. Deliver Phase I of the Target Operating Model (TOM) project		Achieved £220k of savings
14. Keep staff structures under review to meet changing economic climate and ensure they are efficient and effective		Achieved £63k of savings
15. Achieve annual voluntary staff turnover rate of no more than 10%		At the end of the year voluntary staff turnover was 14.7%, a reduction of 4.2% in 2016/17. The

VFM ambitions		Comments
		greatest voluntary staff turnover continues to be within support services and WPS, which is not unusual for these services. Our focus this year is to gain a greater understanding of the reasons and address accordingly.
I6. Achieve annual sickness target of no more than 7.5 days		Annual sickness was just below target at 7.8 days but a reduction of 2.3days from 2016/17 and a cost saving of £54k.