YOUR VALUE FOR MONEY APPROACH

Is it more than just the standard?
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INTRODUCTION

In today’s operating environment, housing associations face a range of pressures which are driving them to be more efficient and to look hard at their costs.*

These pressures include:

- the general economic climate, rising inflation and uncertain debt re-pricing costs;
- the new funding regime for development, with its emphasis on sweating assets and increasing debt levels; and
- increased regulatory focus on governance and viability, with the onus on landlords to develop their own approaches to the way they manage their business services and assets.

The introduction of affordable rent, fixed-term tenancies, changes in welfare benefits and the end of direct Housing Benefit payments. Combined with the general pressure on incomes for tenants, managing tenancies and collecting rent is likely to be more challenging and expensive.

Increased competition for associations providing care and support services for local authority contracts.

And if all of these weren’t enough to deal with already...

The Value for Money (VfM) Standard represents a sea change in both content and emphasis. Although generally the regulatory framework favours light touch through co-regulation, clearly the regulator is being much more proactive in its approach to VfM. The previous standards were essentially about the efficiency of the service delivery. The VfM Standard is now much more about the efficiency and effectiveness of the organisation as a whole.

*Evidence that associations are now looking harder at their costs can be seen from the HCA global accounts 2010 which found that ‘for the first time in many years, operating costs per unit decreased in real terms, particularly in management and major repairs’ and that operating margins increased during the financial year from 14 per cent to 18 per cent. HCA analysis shows that prior to reducing in 2009/10 operating costs have historically risen year on year since 2005. Average annual growth rate in nominal operating costs per unit, at 3.6 per cent between 2005 and 2010 was considerably above inflation.
The regulations are the most far reaching that the social housing sector has seen for many years. The VfM Standard is one of the seven standards within the ‘Revised Regulatory Framework’.

In the same way that an association’s annual statement on internal control demonstrates ownership of the control environment, your board will be required to publish an annual VfM statement. The HCA describes this as a ‘robust self assessment’ where the board will be required to demonstrate that they are not just seeking, but also delivering VfM.

The board will be required to make an annual self assessment statement covering the following areas:

- the cost of delivery of services and how these costs relate to relevant benchmarks;
- if you have achieved the targeted gains for the year and your future targets;
- how decisions over use of resources are made;
- the return you get on the use of your assets;
- how you evidence your improved performance;
- how you assess your VfM options; and
- how your Board has gained assurance over these areas.

So the questions your organisation needs to ask itself are:

- is our approach going to be one where we merely comply with the standard or we going to try and embed this into the organisation;
- how will we undertake such an assessment, and what approach will we take – bottom up or top down; and
- which member of our executive team is going to take responsibility for delivering the assessment and subsequent statement?
VFM – MORE THAN JUST THE STANDARD

Our experience demonstrates the importance of linking cost and service delivery outcomes to get a balanced view of VfM. However, the sector should be careful to avoid the danger of focusing more on costs than on their link with outcomes: or to put it another way concentrating only on the ‘M’ in VfM at the expense of the ‘V’.

A strong focus on VfM is not something that should be driven purely by a regulatory standard, but should be integrated into an association’s culture as a matter of course. With the regulator taking a scaled-back approach to economic regulation, associations will have to be proactive in demonstrating to stakeholders, investors and tenants that they are efficient in their activities, and demonstrate a balanced approach to consumer and economic self-regulation.

Many tenants are already disproportionately affected by the current economic situation and social landlords have an increasing obligation and social responsibility to demonstrate to their tenants that they are operating as efficiently and effectively as possible, offering an open and transparent approach to tenant scrutiny and self-regulation.

Comparison and shared learning only take organisations so far. If associations are not effective in providing good quality services that provide value for money then they are harming the reputation of the sector as a whole.

Key questions which associations therefore need to ask themselves are:
- just how much more efficient could we be;
- how can we deliver services that provide genuine value for money; and
- how can we build in genuine challenge to drive this forward?
HOW WE CAN HELP YOU DELIVER SUSTAINABLE VFM

Assessing and measuring VfM can, however, still be a challenge. Some elements, such as quality and sustainability, may be subjective, difficult to measure, intangible and misunderstood. Our approach to assessing a VfM strategy is designed to ensure that you are making the best possible use of your resources.

We provide our clients with a clear, strategic approach to improving VfM, to support the delivery of the organisation’s services against agreed corporate priorities.

This strategy is underpinned by what we believe to be the key principles of VfM defined as driving down costs, improving services and driving up satisfaction.

In our experience the two key issues for any organisation in relation to VfM is to have an appropriate strategy and the ability to systematically execute it.

Our approach is based on our model of identifying an appropriate strategy that delivers sustainable long term VfM benefits and our VfM management cycle to ensure the systematic implementation of the strategy. And of course the ability of an organisation to meet the HCA VfM regulations.

![Diagram of VfM principles and implementation cycle](Figure 1)

![Diagram of Sustainable VfM journey and HCA VfM regulations](Figure 2)
DEVELOPING A VFM SUSTAINABLE STRATEGY

Most organisations take three broad approaches to creating VfM gains: transactional, transitional and transformational. All three enable organisations to deliver VfM gains: but in our experience transformational approaches are the most likely to deliver long-term and sustainable gains (see figure 3).

Our model of VfM (see figure 4) shows the typical journey organisations need to make to ensure sustainability of their VfM approach. Most organisations begin their approach to VfM by taking a transactional approach. As the limitations of this approach become obvious, they progress into a transitional stage. Although the move from transactional to transitional can be incremental, the move from transitional to transformational requires concerted leadership and management. Evidence from our clients is that the vast majority of them are in the transactional or transitional stages. Other sectors such as local authorities facing significant funding pressures are having to look at transformational delivery options.

In our experience organisations that take a transformational approach tend to make better use of resources.
DEVELOPING A SYSTEMATIC VFM IMPLEMENTATION APPROACH

The long-term aim should be for organisations to heighten their competence in VFM management and to be continually challenging the cost base, monitoring the relationship of costs incurred to outcomes achieved, and aspiring to create an environment for continuous improvement.

This is important when managing business as usual activities and on-going projects, but should also be considered at the policy design stage and when planning new initiatives. Working in new ways often leads to suggestions for further improvement as people become familiar with a new approach but this requires sustained impetus from the leadership in actively demonstrating commitment to on-going improvement.

Having agreed and developed the strategy organisations must then turn to implementation. To this end, we have developed our VfM implementation cycle (see figure 5), which is a reinforcing one.

Therefore to successfully execute a VfM strategy we would recommend an organisation adopts the following principles:

- a robust evidence-based VfM strategy;
- a data-driven approach to understanding, comparing and interrogating costs;
- a change in organisational culture;
- an analytical framework for assessing opportunities to reduce costs ie understanding cost levers;
- an analysis of the cost:value ratio;
- a comprehensive risk assessment;
- accountability;
- a focus on realisation; and
- a business as usual approach to VfM.

Figure 5
SOME EXAMPLES OF SUPPORT THAT WE HAVE PROVIDED

Please find below a representative though not exhaustive list of recent VfM reviews that we have undertaken.

**Mid size housing – LSVT 5,500 units**
We undertook a review of this organisation’s VfM programme, from strategy formulation to operational delivery. Through a review of internal and external benchmarking data, internal KPIs, and discussions with key staff and management, several potential improvements in the organisation’s VfM approach were identified. These included the use of qualitative and quantitative data, and a new approach to procurement, project evaluation and reporting.

**Mid size Midlands based – 3,000 units**
We were engaged by this housing association to perform a VfM review of its planned maintenance function. This was a strategic review examining how effective the organisation utilised the data available to monitor value for money, and to identify any improvements.

Our approach involved discussions with the management and staff, and a review of the reporting data available to the organisation. Our report included several areas for the organisation to focus on to improve the VfM approach in the planned maintenance function.

**Large Yorkshire based – 21,000 units**
Our work with this association involved a review of the group-wide activities of the finance directorate. The aim of this was to provide a more effective and efficient finance function to the group and its subsidiaries, with the ultimate goal of increasing the VfM of this function to the organisation.

As a result of our review, over £400k of cost savings have been made in the finance department. A clear direction of the future of the department has been established, and service to internal customers has been significantly improved.

**Mid sized – 11,600 units**
We were tasked by the management of this association to perform a VfM review of the association’s back office function. This involved extensive use of benchmarking data, in conjunction with discussions with senior management / directors throughout the business, representing both frontline and back office services.

This provided the client with a clear focus for future efficiency programs, and identified and prioritised areas where the association could improve its VfM.

**Scottish Housing Regulator**
We have worked with the Scottish Housing Regulator to review and make recommendations to strengthen the VfM regime for measuring, reviewing and delivering improvement as part of its new Housing Charter.
VFM AND SOCIAL IMPACT

Demonstrating your social impact
In an environment where every penny spent has to be justified it is important that you can demonstrate the impact of the services and activities you choose to spend money on. One tool which can help you achieve this is our Social Impact service. As many public and voluntary service providers are retreating from communities and neighbourhoods as a result of public sector spending cuts, hard evidence of the positive outcomes being achieved and the wider savings secured as a result can be a very powerful message to support continued investment.

Social impact measurement looks at an organisation’s activities and evaluates the impact that these have on the people and communities in which and with which they operate. By working with you and understanding the change that you enable we can demonstrate the benefits and, where appropriate, model their financial effects.

The Public Services (Social Value) Act 2012
The Act has made it a requirement for relevant public authorities wishing to procure goods or services to consider how in doing this it “might improve the economic, social and environmental well-being of the relevant area”. This is applicable for all public service contracts with a threshold of £113,057 from central government and £173,994 from other public bodies and came into force from January 2013.

Benefits of knowing your social impact
Challenging funding pressures: We have worked with organisations in the past facing funding pressures and even closure. Through demonstrating their social impact they have been able to restructure and continue services or obtain funding through alternative channels. Funders are able truly to understand the value of the work these organisations carry out and the social impact of not having them.

Showing your value to your community: Undertaking a SROI can help strengthen your position by demonstrating the wider benefit of the work you undertake. Many organisations offer employment and services that are vital to the local community. These benefits can often be overlooked by funders, commissioners or regulators.

Setting you apart: As social impact studies (especially SROI-based) gain greater traction they are increasingly being used to set companies apart from others. They enable an organisation to boil down the intricacies of the work that they do into an easy to understand figure allowing other bodies fully to appreciate their offering. They also demonstrate the forward-thinking nature of a company that is prepared to undertake new thinking in order to set itself apart.

Evaluating between future projects: Social impact studies can also be used to evaluate the relative anticipated benefits of future projects. With a robust and nuanced understanding of who gains you are better able to make an informed decision about allocating scarce resources.
OUR BACK OFFICE BENCHMARKING PLUS PROGRAMME

To support our VfM service we also run a unique social housing Back Office Benchmarking (BOB Plus) programme. This has been running for over six years now and we have recently extended the scope of the programme to cover the impact of welfare reform and a bespoke ICT benchmarking module.

As a member you can use the BOB Plus programme to:

• analyse the full range of back office services, including HR, marketing and finance functions;
• understand how your organisation performs year-on-year;
• make accurate comparisons with peers;
• assess whether your back office delivers true value for money;
• prove to regulators that you are taking the new standard seriously;
• discover opportunities for back office monies to be redistributed to more tenant facing activities; and
• join one of the regional facilitated BOB Performance Improvement Groups (held a minimum of five times a year in each region), giving you the opportunity to network with like-minded peers and discuss the results generated by participating organisations.

Members of the programme have defined the benchmarking criteria with the main costs being grouped initially into staff cost and operational costs and then into 12 areas including legal costs, IT costs, insurance, training and utilities and rates. Most of our members tell us that their current management reports provide them with the majority of the data required.

Data is inputted via our bespoke secure website accessible only to members. After being validated both online and by one of our specialist RSM consultants, it is added to the overall database. Members are then able to use the online reporting tool to compare their performance.

WE HAVE HAD OUR CHALLENGES IN DEALING WITH THE ECONOMIC CLIMATE AND THE NEED TO BE MORE EFFICIENT. BENCHMARKING WITH THE HELP OF RSM’S BACK OFFICE BENCHMARKING PROGRAMME HAS BEEN AT THE HEART OF OUR APPROACH TO VALUE FOR MONEY.

Steve Dungworth
Head of Management Services
Accent Group
WHERE SHOULD YOU START?

Find below a set of tasks and activities that should help you on the way to achieving sustainability and embedding VfM in your organisation.

- Your starting point should be to identify where you are on the VfM journey – transactional/transitional or transformational – and where you want to be and when.
- Review your current VfM strategy and ask how it could be improved to ensure that the benefits achieved are not just short term but are sustainable in the long term.
- Ask what lessons can be drawn from your last VfM strategy to help inform your new VfM strategy.
- Robustly review your current level of performance vs your cost and set targets which are directly linked to your corporate strategy.
- Check you have the relevant benchmark data.
- Check that your VfM approach will enable you to comply with the new regulatory standard.
- Assess the approach you have taken to implement your strategy and ask yourself how you can ensure that the association’s approach to VfM implementation is systematic.
- Check that you have an appropriate VfM governance structure that provides appropriate executive scrutiny and oversight.
- Identify the cultural barriers that need to be overcome to ensure that VfM is fully embedded.
- Understand how you will know when VfM is embedded among employees.

RSM has the capability and experience to support you in addressing one or all of these issues. If you need assistance please email or call one of the members of the team at the back of the document.
RSM VFM SELF-ASSESSMENT

Try RSM’s VFM self-assessment guide and see how your organisations scores and whether you have a sustainable VfM and SROI model. Share this with your colleagues to see if they share your score.

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<thead>
<tr>
<th>ASSESSMENT</th>
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<th>3</th>
<th>4</th>
<th>5</th>
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<tbody>
<tr>
<td>1. Our VfM approach does not meet the standard</td>
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<td>Our VfM approach fully meets the standard</td>
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<td>2. We have not undertaken a self-assessment</td>
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<td>We have undertaken a full and robust self-assessment and the board have signed it off</td>
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<td>3. Our approach to VfM is tactical</td>
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<td>Our approach to VfM is strategic</td>
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<td>4. Our current approach to VfM is transactional</td>
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<td>Our current approach to VfM is transformational</td>
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<td>5. VfM is not embedded in our culture</td>
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<td>VfM is fully embedded in our culture</td>
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<td>6. We have no understanding of the social impact of our spend on community activities</td>
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<td>We have full monetary understanding of the social impact of our spend on community activities</td>
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<td>Sub Total</td>
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<td>*4</td>
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<td>Your overall total</td>
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Score 20 – 30  Top score your organisation has sustainable and embedded VfM practices
Score 10 – 20  Your organisation is making headway towards sustainable VfM
Score >10     Indicates that VfM in your organisation is tactical
RSM AND OUR SOCIAL HOUSING EXPERTISE

RSM is a leading not for profit specialist and a leading mid-tier provider of accountancy and business services. We specialise in providing clients like you and your business with an integrated range of services.

The firm has over 3,500 staff and a national coverage through its network of offices in 32 locations.

RSM has over 150 social housing sector clients, ranging from traditional associations to LSVTs, ALMOs and other specialist housing organisations.

We operate a national social housing group, comprising over 130 staff, who advise our housing clients. We provide training and technical updates for staff and clients, run seminars and provide a technical helpline.

The backing of our dedicated National Social Housing Group and our strength in depth means that we have the capacity to provide a first class knowledge service.

A full range of services is provided to our social housing clients, including internal and external audit, risk, governance and fraud reviews, tax and VAT planning, benchmarking, business process improvement, social investment, IT and other management consultancy services.

Our specialist staff are fully conversant with the sector. We are lead advisers to SFHA on technical and regulatory matters and are working with other regulators, trade bodies and HMRC on sector issues. In addition, we have advised regulators on the VAT partial exemption methodology frameworks for the sector, and are members of the Revenue’s Charity Joint Working Group.

We operate a national Back Office Benchmarking Plus Programme for social housing providers, with over 40 members ranging from 2,000 to over 60,000 units.

We are regular contributors to sector magazines such as 24 Housing and Inside Housing.

For more information visit our social housing website www.rsmuk.com/socialhousing
The authors

Peter Lunio

Peter is a director in our consulting team and heads our social housing consultancy practice. He brings a wealth of both strategic/operational knowledge and expertise in business process transformation, change management, large scale programme management and Value For Money. He primarily specialises in working with organisations to help transform their organisations. Peter is an MBA graduate having previously worked with Ernst and Young and Logica. He has over 15 years’ experience in international consulting working with clients such as 3M, Black and Decker, Boots the Chemist, Chevron Texaco, and BT. He has also held senior operational roles with Colgate Palmolive and RS Components.

Peter is a leading authority on the key trends in VfM having published many articles in leading journals on the subject. He has also been a guest speaker at many associated conferences and has spoken at the National Housing Federation conference for the last three years. He has led on the national development of RSM’s Social Housing Back Office Benchmarking Plus (BOB Plus) programme, and over the past few years, he has been involved in the delivery of number of projects in social housing including Value for Money strategy reviews, cost reduction schemes, detailed benchmarking exercises and organisational change programmes.

Keith Ward

Keith is a Director in our consulting team and has been involved in the social housing sector for over 20 years. Keith co runs the Northern BOB Plus group and is head of our social impact advisory team.

Keith qualified at Robson Rhodes and prior to joining RSM spent six years at KPMG, specialising in advising clients within the social housing sector.

Keith has presented at the NHF Finance Conference in Warwick for the last five years and at other social housing events around the country.