



watford
community
housing

Value for money strategy

2020 - 2025

Our Vision and Values

Our vision is to deliver “**Better homes, friendlier communities together**”. This commitment remains as strong today as it was when we were formed in 2007.

Our twin aims are to provide ‘**better homes**’ – ensuring a high-quality service offer to our customers and delivering more homes – and ‘**friendlier communities**’ with a strong focus on community cohesion.

In 2019/20 we engaged with our staff to relaunch our values. These values were created through staff engagement and will be integral to how we work at the Group:

- **Professional:** We are honest, open and respectful. People trust us to keep our promises.
- **Forward-thinking:** We have a can-do attitude and embrace opportunities to improve and innovate.
- **Collaborative:** We work together as one team and build lasting partnerships to get results.

Key Performance Indicators

The following table summarises Group performance against this year’s targets and last year’s performance across the Key Performance Indicators drawn from our Business Plan objectives.

These Indicators form the basis of a Corporate Balanced Scorecard which is reviewed quarterly by our Executive Management Team, Operations Committee, Gateway Membership Team and Group Board. The selected Indicators enable our Group Board to monitor performance in the areas key to us as a community-focused housing provider with an ambitious development programme. The Indicators have been aligned with the new ‘technical metrics’ introduced by our regulator in April 2018 under a revised Value for Money regulatory standard. See the later section on Value for Money (VFM) for more information about how we are meeting this standard.

The Group delivered strong performance against its targets this year, matching or exceeding the designated target in fifteen areas and delivering steady performance in five areas. Our performance in these areas is regularly reviewed by the Executive Management Team and formally reported to the Group Board, the Operations Committee and the Gateway Membership Team under our ongoing performance review framework.

Customer satisfaction with our repairs service, an area of fundamental importance to our customers, continued to be strong last year at 90.9% against an increased target of 90%. Overall satisfaction with our services improved a notable 3.0% points over the year due to a number of internal improvements made across our services to reach our target of 87.5%. This follows the re-procurement

of our core estate maintenance contracts in collaboration with our tenant scrutiny panel and continued positive customer feedback in our asset improvement programme. Customers have also been provided enhanced digital service functionality with the ability for our customers to book their repairs and check their status online. Our Digital Tenancy Services sign-up exceeded the target of 20% with 21.3% of our customers registered on the service by the end of the year.

We continued to monitor Net Promoter Score satisfaction score during 2019/20, which captures the customers’ likelihood of recommending Watford Community Housing to friends and family. Our score of +37 shows that we have performed consistently well over the year, above both our internal target (+30) and the sector average of -6.

Our complaints to compliments ratio performed positively and exceeded target over the year and our contact centre figures for first call resolution were marginally below target, but this year included a new methodology which introduced customer call rating with a post-call survey to our contact centre, with all dissatisfied callers followed up for feedback and linked staff training. Occupancy was below target performance for 2019/20 but this includes the impact of decanting existing schemes for future development. With development voids excluded the Group occupancy level was in excess of 99%.

Our community hubs have delivered another strong performance this year, generating over £147,000 of income for the Group, a 22% increase on last year, through a wide range of community activities.

The Group has also seen continued improvement in its overall financial performance (as covered elsewhere in these Statements), and strong performance on delivery of VFM savings and staff satisfaction averaging +77 (out of 100) for the year as a whole following further work on staff recognition, new wellbeing offers and promotion of our staff rewards offer.

We set an ambitious aspiration for building new homes under our 2016-20 Business Plan to commit to building 1,000 new homes by 2020 under a range of different developments and branching out into new communities. Over the four-year period, we exceeded this ambition by committing to more than 1,100 homes. We delivered 134 new homes last year and committed a further 111 during the year to support our development programme. This was the highest volume of completion ever achieved by Watford Community Housing. There were 39 unsold dwellings at year end which were impacted by Brexit uncertainty, the Covid-19 pandemic and several schemes completing in Q4 2019/20. Marketing activity continues in this area to convert reservations into completions and Group Board is regularly updated on progress.

Key performance indicators

	2020 Target	2020	2019	Flag vs. Target
1. Super Brand				
% of tenants satisfied with repairs & maintenance	90%	90.9%	87.8%	●
% of tenants satisfied with overall service	87.5%	87.5%	84.5%	●
Net Promoter Score	30	37	31	●
First call resolution	80.0%	79.7%	87.3%	●
Ratio of complaints to compliments	50:50	48:52	44:56	●
% of Tenants Registered on Digital Tenancy Services	20%	21.3%	14.7%	●
Gas compliance	100%	100%	100%	●
2. Strong Financial Position				
Operating margin (overall)	27.5%	31.2%	32.5%	●
Operating margin (social housing lettings only)	30.0%	31.9%	32.6%	●
EBITDA (Earnings Before Interest Tax and Amortisation – Major Repairs Included) Interest Cover %	125%	173.7%	197.4%	●
VFM Savings	£1.25m	£1.25m	£1.43m	●
Occupancy	99.5%	98.6%	99.0%	●
Headline social housing cost per unit ('000)	£4.00	£3.76	£3.86	●
3. Partnership Working				
Net staff satisfaction	70	77	71	●
4. Active Developer				
Homes committed for building	170	111	57	●
Homes completed	107	134	61	●
Unsold units at quarter end (shared ownership & sales)	0	39	3	●
Units unsold for more than 6 months	0	19	1	●
5. Building Community Capacity				
Hubs income (£000)	£100	£147	£114	●
New Involvement Menu Participants	100	123	N/A	●

Flag key: ● Positive performance ● Steady ● In need of attention

Business and Financial Review

The Group operates in increasingly challenging times while the demand for its services and homes remains as great as ever. It has produced a strong performance in 2019/20 with its operating surplus being £11.2m. The financial highlights over the past five years are set out below.

Group highlights, summary (5 year summary)

For year ended 31 March	2020	2019	2018	2017	2016
	£'000	£'000	£'000	£'000	£'000
Summary Statement of Comprehensive Income					
Total turnover	34,190	34,928	31,735	31,410	29,729
Income from Social Housing Lettings (note 3a)	28,816	28,568	28,272	27,757	27,626
Operating surplus: continuing activities	11,201	11,586	10,984	11,275	7,361
Surplus for the year transferred to reserves	5,323	5,905	6,708	7,321	4,985
Group Balance Sheet					
Intangible assets (note 11)	(28,317)	(28,734)	(29,151)	(29,568)	(29,985)
Investments in Joint Ventures	2,973	2,869	2,861	2,393	0
Housing Properties (note 12)	306,933	286,933	267,473	241,743	219,634
Investment Properties (note 14)	4,040	4,095	4,095	3,915	3,555
Other Property, Plant and Equipment (note 13)	12,906	13,049	13,211	12,974	13,437
Fixed assets	298,535	278,212	258,488	231,457	206,641
Net current assets	30,332	29,931	41,368	35,006	25,596
Total assets less current liabilities	328,867	308,143	299,856	266,463	232,237
Funded by:					
Loans (due over one year) (note 18)	167,636	155,061	155,129	132,158	85,027
Pension liability (note 23)	-	478	138	463	557
Provision for liabilities	1,342	1,898	1,021	-	-
Other long term liabilities (note 18)	47,841	38,149	35,489	34,174	52,432
Reserves:					
Revenue inc. pension	52,599	46,035	40,456	33,398	25,175
Property Revaluation	96,089	96,141	96,145	96,150	96,929
Cashflow hedge reserve	(36,640)	(29,619)	(28,524)	(29,881)	(27,883)
Consolidated funds	328,868	308,143	299,855	266,463	232,237

The Financial Plan is reviewed annually by the Group Board. The Group has carried out stringent testing of its Financial Plan to assess how strong it is in different scenarios and understands the impact of various events individually or taken together. As a result the Group Board is confident the Financial Plan is robust and will continue to monitor performance and delivery in conjunction with the review of its Corporate Risk Register.

The Group continues to work on maintaining good services to its customers whilst seeking to achieve VFM in its activities. It has achieved its financial target for efficiencies in 2019/20 and is now seeking to increase its operating surplus in future years to release more money for services and building homes.

The Group's subsidiary development company 'WCHT Devco Limited' (Devco) was used to facilitate a number of major development schemes and provided a zero-rated design and build service to the Group. Additionally the Group's commercial subsidiary Clarendon Living Limited completed its first open market sale development scheme during 2019/20.

As part of the transfer agreement from Watford Borough Council a significant portion of the Group's customers have the Preserved Right to Buy (RTB) and during the year 6 customers exercised this right. As per the transfer agreement this was the final year that Watford Borough Council receives the proceeds of RTB sales after the Group has deducted an allowance for administrative costs and rent foregone on the sold property.

Risk Assessment

Risk is proactively managed across the Group with ultimate responsibility resting with the Group Board. Risks are identified at all levels in the organisation and brought together into the Corporate Risk Map which considers how risks are being mitigated in the business. A system of internal control is in place which is monitored by the Audit and Risk Committee supported by Internal Audit. The Group Board considers the following to be the Key

Risks to the Group together with mitigating actions being taken. The risks are considered at a Group level to reflect the increasing complexity of the Group and assessed regularly to monitor whether the appropriate risks have been captured and also to monitor the assurance provided by the Executive Management Team. Subsidiary Boards also monitor their key risks throughout the year and report any material changes in risk to Group Board.

Key risk	Mitigating actions being taken
<p>Finance and Balance Sheet Risk: as a result of changes to government legislation, exposure to fraud, increased funding costs, availability of funding, economic conditions and market risks</p>	<ul style="list-style-type: none"> • Additional £20m of finance secured in 2019/20 creating Group debt capacity of £220m. • Ongoing monitoring and reporting of impact of welfare reform on areas such as bad debt, universal credit performance and income arrears • Fraud policy regularly reviewed and fraud incidences reported quarterly to Audit and Risk Committee • Financial Plan annually subjected to multi-variate stress testing to identify variety of economic assumptions and their impact on the Group's plan - with May 2020 IDA outcome of V1 • Regular monitoring of Golden Rules both at Management and Group Board level to support ongoing viability • VFM activity maintains focus on efficiency gains and productivity to mitigate any exposure of inflation / market risk
<p>Governance and People Risk: arising from poor Board oversight, lack of succession planning, corporate structure not being fit for purpose, lack of development and growth for leaders</p>	<ul style="list-style-type: none"> • May 2020 IDA outcome gave Watford Community Housing governance rating of G1 • Executive Management Team has been structured to reflect appropriate skillset within the Group's leadership team • Subsidiary boards report up to the Group Board on regular basis including updates on joint venture activities • Terms of Reference and Group Financial Regulations provide assurance on decision-making clarity within the Group. Both are reviewed on an annual basis • Ongoing skills development sessions provided to Group Board and Committee members to support informed understanding and scrutiny of the Group; including sessions on Risk, Treasury / Stress Testing, VFM, Digitalisation and Health & Safety. • Group Board members are regularly invited to stakeholder events to support engagement and awareness of the Group.
<p>Customer Outcomes: due to lack of Brand clarity, lack of service standards with customers, impact of welfare reform on customers, ineffective community engagement or safeguarding</p>	<ul style="list-style-type: none"> • Service Standards give clear standards/expectations of service from the Group • Active Community Budget invested in a number of activities, including community programmes / Hub activity and supporting customer scrutiny • Pro-active tenant mapping exercise has enabled the Group to reach >80% coverage on diversity and inclusion data • Increased joint-working between Group Board and Gateway Management Team (GMT) • Ongoing monitoring of customer arrears and Tenancy Sustainment team in place to provide support to customers
<p>Health and Safety and Asset Management: Corporate health & safety failures, lack of robust appraisal techniques for existing stock, poor decision making on asset investments, lack of investment in ICT estate</p>	<ul style="list-style-type: none"> • Health and Safety compliance monitored at Group Board level and external assurance from British Safety Council (BSC) gave 4 star assurance rating to the Group • Older Persons' Housing consultation underway with Group Board and customers to define long-term strategy for this stock type • Asset Investment Model in place, with Group Board training provided, to ensure the Group is making appropriate decisions on stock management and prioritising long-term investment decisions • Following the insourcing of the IT function in April 2018, improved service standards being achieved and > 20% sign-up to Digital Tenancy Service Portal achieved. Portal now includes Self-Appointed Repairs capability for customers to book online • IT service stability enhanced during 2019/20 with upgrades to core assets and Cyber Security Accreditation achieved.
<p>Development and Growth Risk: Overstretching the Group's resources, delay or over-spend, issues over quality, exposure to market movements</p>	<ul style="list-style-type: none"> • Monthly reporting and forecasting of development cashflows are in place to monitor spend and over-run risk. Any material movements in scheme costs are reported to appropriate Board and Committee for oversight and review • Golden Rules have been developed and approved by Group Board and monitored on a quarterly basis, these include monitoring of development capacity and also development spend versus budget • The Development Team has been strengthened further in 2019/20 to increase capability and capacity for larger programmes • Terms of Reference and Financial Regulations are in place for managing joint ventures. A 12-month timetable of activity reviewed monthly by Executive Management Team to monitor risk and define priorities • Regular monitoring of sales exposure and unsold dwellings conducted by management team and Group Board to provide assurance on delivery. All market exposed scheme appraisals include an exit plan to anticipate options should market conditions change. • Further Golden Rules approved in 2019/20 to monitor Group sales risk exposure across the Group

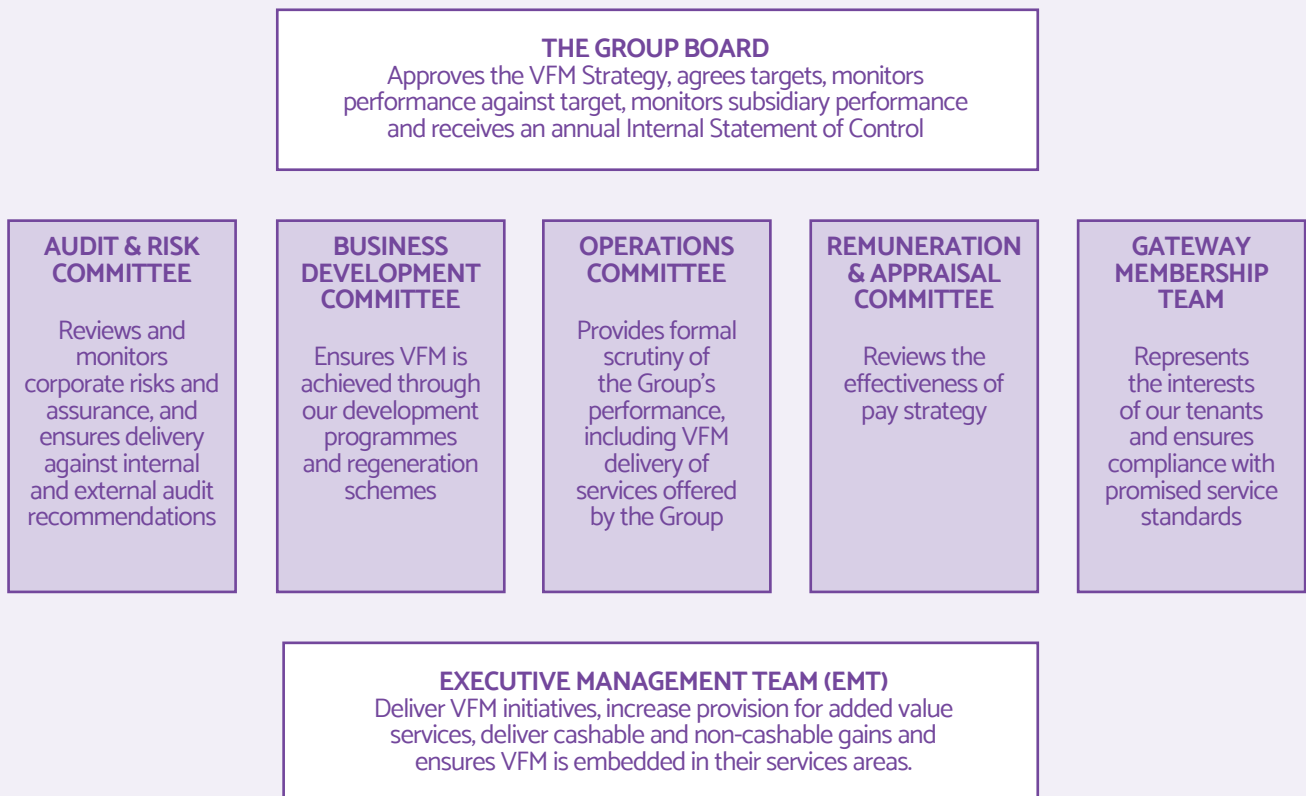
Value for Money (VFM)

Our Strategy:

The Group is committed to delivering Value for Money through our business activities. Our Business Plan 2016-20 set clear objectives and key priority areas to ensure we deliver improvements to the quality of services, maintain a strong financial position and gain competitive advantage through partnership working. This plan is supported by our VFM strategy. Our strategy for delivery of VFM is reinforced by:

- Ensuring our approach to VFM stems from the corporate plan and flows through the practices adopted within the Group for service standards;
- Being aligned to the Regulator’s standards and Code of Practice;
- Ensuring staff are made aware of the expectations of delivering cashable and non-cashable gains and;
- Demonstrating to our stakeholders and customers that we are an efficient Group making maximum use of our resources and achieving our environmental and social objectives.

To be effective, VFM is made integral to our business planning, with close links to our Performance Management Framework. It is a continual review of information, process, tenant scrutiny, customer feedback, benchmarking and performance management. VFM is embedded in our governance structure as illustrated below.



We welcomed the Regulator’s revised Value for Money standard and sector-wide technical metrics introduced in April 2018, embedding VFM at the corporate and strategic level. We have also reviewed our strategies on Value for Money, Development, Procurement and Asset Management and our Group Board has appointed a VFM champion to ensure VFM remains a corporate focus throughout the financial year.

The Executive Team manage VFM across the Group across three main areas:

- VFM through Maximising the Return on Assets
- VFM through Operational Efficiency
- VFM through Effective Procurement

Value for Money (continued)

Achieving VFM by Maximising the Return on Our Assets:

The Group operates a large property estate and associated assets, which are estimated to have an open market value approaching £1bn. In 2019/20 we spent £4.8m on maintenance of our properties and £4.4m on programmed repairs. For 2020/21 the budgeted numbers are £5.0m and £3.9m respectively. The Group is committed to actively managing the portfolio to ensure that it continues to meet the needs of residents and is maintained to an agreed standard whilst maximising the return achieved.

The Group is continuing to explore additional income channels including expanding its managed services and maximising the use of void properties. We manage homes for Watford Borough Council (WBC), Hertfordshire County Council and Three Rivers District Council. Additionally the Group is working with local charities, including St Albans and Hertsmere Women's Refuge to let accommodation.

To assist the evaluation of options for future use of properties we calculate the Return on Capital Employed through our Asset Investment Model to inform future planning decisions on the Group's assets.

Achieving VFM through Operational Efficiency:

As part of our continuous evaluation of operational costs, the Group Board agreed an efficiency target of £1.25m for the 2019/20 financial year. At the end of 2019/20, we were pleased to report VFM savings of £1.25m, meaning we have met our target. We have continued to work hard to ensure we deliver further gains. Tabulated below is the register of our efficiency gains over the last four years, with an achievement of £0.6m greater than original projection. All gains identified contribute to the surpluses realised in the financial year, which are used to further our social objectives through investment in services and new homes.

Efficiency Gains over four years

Efficiency Gains over 4 years	2016-17 Target	2016-17 achieved	2017-18 Target	2017-18 achieved	2018-19 Target	2018-19 achieved	2019-20 Target	2019-20 achieved	Total Target	Total achieved	Variance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Procurement, Contract Savings & use of consultants	555	675	594	761	600	814	525	512	2,274	2,762	488
Self Servicing	0	0	0	0	0	0	0	0	0	0	0
Energy Innovation	103	9	50	50	0	0	50	0	203	59	-144
Streamlined Customer Engagement	364	364	70	176	0	0	0	0	434	540	106
IT Infrastructural Cost, System Upgrades / Other	13	13	0	0	210	210	155	152	378	375	-3
Review of responsive repairs cost	400	439	0	0	0	0	0	0	400	439	39
Lean business processes	193	236	300	300	41	47	465	475	999	1058	59
Income Generation	156	165	215	223	349	357	55	115	775	860	85
	1,784	1,901	1,229	1,510	1,200	1,428	1,250	1,254	5,463	6,093	630

Achieving VFM through Efficient Procurement:

To support delivery of VFM across the business the Group has a Procurement Strategy, which is managed and monitored by the Finance and Risk Manager. The strategy is aligned with the Group's 2016-20 Business Plan and is designed to ensure that the Group:

- i. Has in place an effective framework which ensures that it meets OJEU and other legal requirements
- ii. Shows clarity in the procurement process for both staff and suppliers.
- iii. Carries out effective due diligence on suppliers to ensure they meet its criteria in areas including financial viability, insurance cover and health & safety.
- iv. Builds strong relationships and partnerships with its suppliers.
- v. Sets clear budgets for VFM through procurement and monitoring progress.
- vi. Keeps accurate records of contracts and the arrangements entered in to which are reviewed regularly to ensure the expected benefits are achieved.

- vii. Seeks to acquire added value from its supplier base in the way they support the business.
- viii. Has an effective payment arrangement in place to manage administrative costs, whilst ensuring suppliers are paid on time.
- ix. Procures responsibly with attention to the impact on the environment of purchasing decisions and looking to work with responsible suppliers. We will look to achieve added value through training opportunities such as apprenticeships and other areas of support to customers and the business.

VFM Monitoring through Benchmarking:

In order to maintain compliance with the VFM standard, the Group continues to monitor the performance of the Group against appropriate benchmarks and also looks to understand and explain any variances. In December 2019, the RSH published the latest analysis of cost variations across the social housing sector to support Associations in understanding their costs and achieving VFM in their activities. Below are comparison tables with commentary to support the Group's position on VFM delivery.

Cost per Unit (2019/20)

Due to the publication of Global Accounts for the Housing Sector and the included VFM analysis, we are able to benchmark the Group's Cost per Unit (CPU) performance against the sector. The Group has consistently lowered its CPU against the sector median. This improvement is linked to the work maximising VFM through operational efficiency, return on assets, and efficient procurement.

CPU improved in 2019/20 as a result of continued focus on VFM savings. Over the past five year Watford Community Housing has managed to improve its cost per unit performance by 8%, which includes the absorption of inflation over a five year period. Watford Community Housing continues to monitor its cost base through benchmarking and balance cost savings / efficiencies alongside quality of service and customer outcomes.

Cost per Unit (£k)	2015/16	2016/17	2017/18	2018/19	2019/20
Watford Community Housing	4.12	3.93	3.78	3.86	3.76
Median Sector Performance	3.55	3.30	3.40	3.69	

*average Cost per Unit.

(2015-2019 figures taken from Global accounts.)

Value for Money (continued)

Year-on-Year Comparison of Technical Metrics:

The table (right) shows the movement in technical metrics between 2020 and 2019 with a commentary to support key movements. The Operating Margin performed above 30% both on an overall position, and on a social housing lettings only basis. This position was partly impacted at year-end through additional costs and provisions relating to arrears risk which explains the reduction to 2019 performance. Earnings Before Interest Tax Depreciation & Amortisation; Major Repairs Included (EBITDA MRI) Interest Cover % refers to the level of surplus that a registered provider generates compared to interest payable. This has reduced in the last year, but this was in line with expectations due to increased financing costs and still holds significant headroom against our loan covenants. Return on Capital Employed (RoCE) and Reinvestment are both broadly aligned to prior year performance. New social housing supply has improved versus the previous year as we continue to see progress in our development programme and as noted above, we continue to build a strong pipeline of committed schemes.

Watford Community Housing	2019	2020	Flag
Operating Margin % (social housing lettings only)	32.6%	31.9%	●
Operating Margin % (overall)	32.5%	31.2%	●
EBITDA MRI Interest Cover %	197.4%	173.7%	●
Headline SH Cost per Unit ('000)	£3.86	£3.76	●
Gearing	43.5%	46.6%	●
Return on Capital Employed (RoCE)	3.8%	3.6%	●
% Reinvestment	12.3%	11.5%	●
% New supply delivered (social housing units)	1.3%	2.5%	●
% New supply delivered (non-social housing units)	0.0%	0.2%	●

Comparison of Technical Metrics to Peer Group and Sector:

The table (right) shows the Group's performance on the technical metrics against the sector average and also a selected peer group. The peer group includes other Gateway housing associations and those of a similar size and geographic location to Watford Community Housing, with a commentary to support key movements. The comparison to peer group and industry median for Operating Margin is favourable as Watford Community Housing continues to focus on strong financial performance. The headline social housing cost per unit is better than the peer group but slightly higher than the industry median, reflecting the broader correlation between the London region having a regionally higher CPU than the national average. Reinvestment and New Supply Delivered has exceeded both the peer group and sector median due to our investment in both new stock and existing properties. Our EBITDA and Gearing metrics are slightly adverse to both comparators which reflects growth in our debt book to support our development performance, which is above both peer group and industry median.

	Group 2020	Peer group median 2019	Industry median 2019	Flag v Peer Group
Operating Margin % (social housing lettings)	31.9%	31.8%	29.2%	●
Operating Margin % (overall)	31.2%	28.5%	25.8%	●
EBITDA MRI Interest Cover %	173.7%	213%	184%	●
Headline SH Cost per Unit ('000)	£3.76	£4.28	£3.69	●
Gearing	46.6%	42.6%	43.4%	●
RoCE	3.6%	3.9%	3.8%	●
Reinvestment %	11.5%	6.9%	6.2%	●
% New supply delivered (social housing units)	2.5%	1.7%	1.5%	●
New supply delivered (non-SH units)	0.2%	0%	0%	●

VFM into 2020 and beyond:

The efforts to deliver value for money to our tenants and the organisation continue into 2020/21 and will be monitored through Group Board. The VFM activities planned for 2020/21 have been reviewed and discussed with Group Board and management focus will include delivering the following VFM initiatives:

- Maximising income streams
- Optimisation of assets through void performance improvements
- Improving performance of garage stock
- Embedding efficiencies in newly procured Grounds Maintenance and Cleaning contracts
- New procurement on Materials Spend contract
- Contract review of the Improvement Programme
- ICT and Telephony procurement savings
- Managed usage of training / consultant spend

The Group Board annually reviews and confirms performance targets for the Group and this includes projections across a number of years. Opposite is a table confirming future year projections for key VFM Metrics out to 2024/25. Operating Margin both with and without Shared Ownership and Sales is projected to remain stable across the plan period, which is broadly in line with peer group analysis. It balances ongoing efficiency savings (as demonstrated by the VFM savings targets opposite) against investments identified to deliver our Customer Promises. Social Housing Cost per unit is targeted to reduce in line with the performance achieved in 2016-20. This requires the Group to absorb inflation and achieve efficiency cost savings whilst growing the stock numbers. EBITDA targets remain at 125% which is the Group's Golden Rule, but active Treasury monitoring throughout the period to ensure coverage exists in excess of this position. Housing supply is shown to grow over the plan period to reflect our ongoing development ambitions. Performance will be carefully monitored against all of these metrics over the course of the plan period, particularly in relation to key risks including Brexit and the Covid-19 pandemic.

KPI	2021/22	2022/23	2023/24	2024/25
Operating Margin (including S/O & Sales)	27.5%	27.5%	27.5%	27.5%
Operating Margin (excluding S/O & Sales)	30%	30%	30%	30%
Social Housing Cost Per Unit (SHCPU)	£3,950	£3,900	£3,850	£3,800
Annual VFM Savings	£1.35m	£1.4m	£1.45m	£1.5m
EBITDA	1.25%	1.25%	1.25%	1.25%
New Supply Delivered (Social Housing)	2.125%	2.25%	2.375%	2.5%
New Supply Delivered (Non-Social Housing)	0.15%	0.2%	0.25%	0.3%