



Notting Hill Genesis Value for Money Strategy 2019-2024

1.0 Introduction

Notting Hill Genesis exists to provide good quality homes for those who could not otherwise afford them, and we aim to be the best housing association in London, based in the community, to provide homes for lower income households in and around London.

The new joint Corporate Strategy has five core themes as follows:-

- Our residents – to provide services and support that our residents need
- Our homes – places where our residents want to live
- Providing more new homes - new homes for lower-income households
- Our people - supporting our colleagues to provide the best service possible
- Our financial strength - ensuring a robust financial foundation to support investment and growth

Within the Corporate Strategy each of the above Corporate Objectives is accompanied by a definition and/or an explanation of how it supports the Corporate Strategy. We are developing metrics so that we can report how we are performing against each objective.

This Value for Money (VFM) Strategy provides the Board with a framework that ensures that, in meeting the Corporate Objectives, VFM is delivered strategically across the organisation.

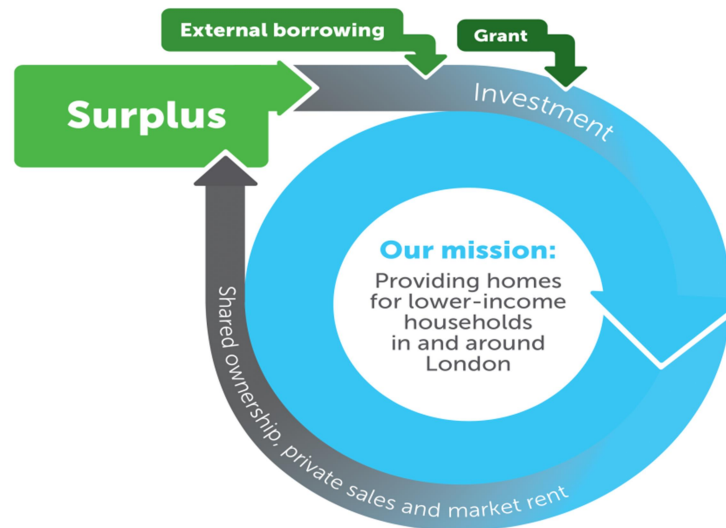
2.0 Objectives of our VFM Strategy

Our VFM strategy will ensure that we:

- Develop and refine other strategies which have VFM implications
- Explain our VFM approach to our residents, staff and stakeholders
- Support VFM activities
- Ensure VFM is delivered consistency and effectively across the organisation
- Set VFM targets

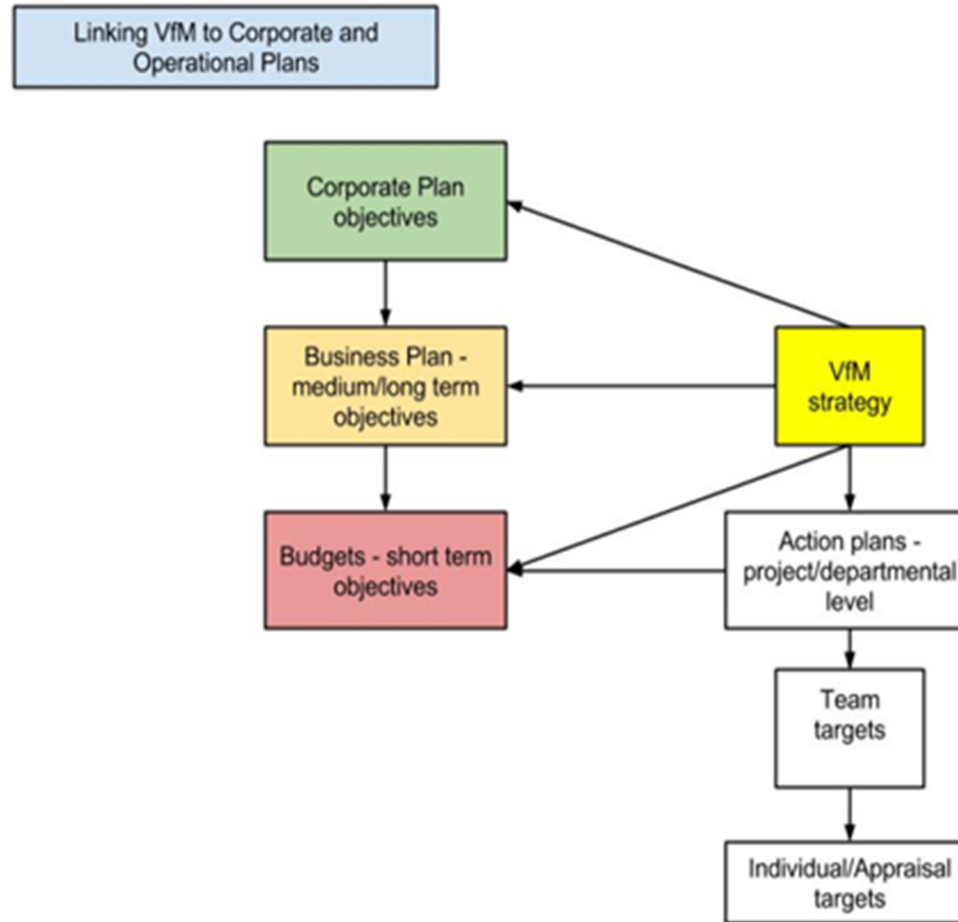
3.0 What does VFM mean to Notting Hill Genesis?

- 3.1 VFM is achieved when there is an optimal balance between low costs, high productivity and successful outcomes. This means that NHG make the best use of its resources and assets in delivering the strategic objectives, whilst delivering the optimum benefit.
- 3.2 The purpose of this Strategy is to identify our VFM targets over the life of the Corporate Plan to March 2024, the strategies that will support delivery of VFM and the actions we will take to achieve these. We set out our processes for the monitoring of these plans. The Strategy also includes benchmarking of our current performance against a relevant peer group and sets out our future forecasts for this performance over the next two years. The Strategy shows how we will use our diverse range of activities, including our non-social housing activities, to achieve our mission and assess the returns these generate for us.
- 3.3 Ultimately, it is the Board's role to ensure that we optimise economy, efficiency and effectiveness in the delivery of the Corporate Objectives. The next sections set out specific responsibilities which enable the Board to discharge its duty through Notting Hill Genesis management structure. Achieving VFM is vital to ensure that during times of economic pressure for our organisation, our partner agencies and for our service users, we continue to spend our money in the best way to deliver the best outcomes.
- 3.4 Our Corporate Strategy states that our surpluses generated from non-social activity are then used to support the social housing activities which supports NHG mission. VFM targets can help to increase the surpluses generated.



4.0 How VFM is monitored by the Board and Executive Board

We have a governance and operational structure that ensures VFM savings are identified, assigned to business individuals and then monitored through to delivery. The structure in place is outlined below and it starts with the Corporate Aims and Objectives set by the Board.



- 4.2 The Board is responsible for approving our Corporate Strategy and Plan as well as this Strategy, which is consistent with our Corporate Objectives.
- 4.3 Each year, the Board approves both Notting Hill Genesis Strategic 30 year plan and annual budget, including targets, actions and prudent assumptions consistent with this VFM Strategy and the Corporate Plan. The Board will monitor the achievement of the budget and the annual plan as part of its existing monitoring and oversight processes.

- 4.4 The Board will also receive a VFM Report at the end of each year. This will usually be presented in July and will assess performance against the VFM targets for the previous financial year alongside a commentary on the final VFM metrics for inclusion in the statutory accounts, with reference to performance against our peers.
- 4.5 Responsibilities for the initial drafting and any proposed updates to this Strategy are delegated to the Group Director of Finance who is responsible for the presentation of the VFM Report to Board.
- 4.6 Responsibility for the delivery of VFM targets/savings is shared by the responsible individuals within Executive Board and their Directors.
- 4.7 Key Performance Indicators are currently reported to Board each quarter which include performance against the following key objectives within our strategy:
- Financial performance – a suite of metrics to assess performance against budget target/s
 - Numbers of new homes delivered across a range of tenures – providing homes
 - Sales activity – impact on financial strength
 - Resident satisfaction – resident
 - Compliance – to ensure safe well maintained homes

Section 8 details additional metrics that will be reported from 2019/20 to ensure all the VFM objectives within the new Corporate Strategy are being monitored and reported to Board or appropriate sub committees of the Board.

- 4.8 All of Notting Hill Genesis staff has a role to play in seeking and achieving VFM for the organisation, and we actively encourage VFM. Proposals from all members of staff – Forums existed in Notting Hill and Genesis but have been stood down as the merger takes place. We plan to reestablish a forum once co- creation is completed.

5.0 The Regulator of Social Housing (RSH) VFM standard 2018

- 5.1 The RSH has outlined what it expects Registered Providers to deliver in relation to VFM in its 'VFM Standard 2018', which is presented in Appendix 1. The requirements of the VFM Standard are expanded upon in the accompanying Code of Practice which is also detailed in Appendix 1.
- 5.2 The following sections in this VFM strategy outline how Notting Hill Genesis will deliver the requirements and expectations of the VFM Standard 2018.

6.0 How does NHG compare with similar organisations?

6.1 A key requirement of the VFM Standard is that an organisation understands the costs and outcomes of delivering specific services, which underlying factors influence these costs, and how they do so.

Table 1 overleaf show Notting Hill Genesis actual RSH VFM metrics for 2017/18, (amalgamated from Genesis and Notting Hill data as they were separate organisations in that year), along with forecast results for the next two years. These are shown in comparison to the G15 peer group results for 2017/18.

6.2 The table shows that:

6.4 Reinvestment (%).

We can conclude that whilst our 2017/18 performance was lower than our peer group, in future years we are planning to significantly increase our level of investment.

6.5 New supply (social) (%). The metric is another measure of growth based on new units completed in the year and as with reinvestment, our performance is forecast to improve.

6.6 Gearing (%). The metric measures indebtedness i.e. levels of borrowings and our forecasts predict that this will rise from 2017/18 levels as we deliver our development programme.

6.7 EBITDA MRI interest cover (%). The metric looks at the strength of earnings in comparison to interest costs.

The future forecasts for this metric indicate a lower ratio for 2018/19 reflecting the impact of market conditions on the number of sales and higher than anticipated cost of integration. 2019/20 forecasts an improved position. Our Corporate Strategy is to achieve £500m surplus over the next five years, which will result in improved levels of interest cover.

6.8 Headline social housing CPU (£). The metric looks at total operating costs in comparison to the number of units in ownership and management. Relative to our peer group NHG is an outlier. This is due to three main factors. The first is the high proportion of Supported Housing. Secondly, a large portfolio of temporary housing means that costs include the rent charged by the landlord that owns the accommodation. Finally, NHG manages a large proportion of stock in London. Looking forward our CPU is expected to fall by 6.5% over the 3 years.

6.9 Operating Margin - SH lettings (%). The metric measures the level of surplus (before interest) generated from social housing lettings as a percentage of relevant turnover and our forecast shows a fluctuation in 2018/19, reflecting higher than anticipated merger costs. The planned delivery of £20m savings by 2020/21, as per the Corporate Strategy will improve this metric further.

- 6.10 Operating margin- overall (%). The metric is similar to above, but this time takes the total operating surplus on all activities as a percentage of total turnover on all activities. This metric fluctuates but as with the SH lettings this margin will improve by 2020/21 when the full £20m operating cost savings are realised.
- 6.11 Return on Capital Employed (%). The metric is another measure of surplus but this time in comparison to the asset base rather than to revenues. We are aware that returns from the commercial operations are lower than would be expected. The strategic reviews undertaken should see improvements in this metric, as we review our geographical foot print.

Table 1 – NHG Performance against Key VFM Metrics 2017 to 2020

	2017/18 Actual -Peer Group - G15	2017/18 Actual - NHG	2018/19 Budget - NHG	2018/19 Forecast - NHG	2019/20 Budget - NHG
1 - Reinvestment % (Development)	5.8%	5.2%	9.1%	7.2%	4.9%
2A.New Supply delivered -Social housing homes	1.4%	0.9%	2.5%	2.4%	2.7%
2B.New Supply delivered - Non-social housing homes	0.5%	0.4%	1.4%	1.5%	1.3%
3 - Gearing %	44.7%	48.3%	52.3%	51.0%	49.0%
4 – EBITDA MRI Interest Cover	147.6%	115.3%	131.4%	118.1%	134.6%
5 - Headline social housing cost per unit	4,870	6,485	6,295	6,502	6,020
6A. Operating Margin % -Social Housing lettings only	34.2%	25.3%	29.5%	23.6%	27.2%
6B. Operating Margin % - overall	28.4%	22.0%	27.2%	21.9%	25.6%
7 - Return on capital employed (ROCE) %	3.5%	2.9%	2.5%	2.1%	2.6%

Details about the G15 peer group can be obtained from the following websites:
[https://en.wikipedia.org/wiki/G15_\(housing_associations\)](https://en.wikipedia.org/wiki/G15_(housing_associations))
<https://g15.london/>

7.0 Our approach to remuneration and employment costs

7.1 Notting Hill Genesis has developed a new joint NHG Pay Policy as part of a suite of new HR policies. We aim to remunerate employees to optimise recruitment and retention of the best employees at the appropriate cost. NHG usually undertakes a group-wide exercise which benchmarks the market median every three years. In addition a review of salaries will usually be carried out with effect from 1 April each year. NHG operates a pay system which takes into consideration both the external operating environment and internal relativities and structures.

8.0 What are NHG VFM targets for the future?

8.1 The budget set for 2019/20 has a net operating cost savings target of £7.5m, maintaining the target set for 2018/19. This reflects £14m of operating cost savings, and integration costs of £6.5m.

8.2 By April 2020 the full £20m operating cost saving projected prior to the merger is forecast to be achieved. This is embedded in year two of our Strategic Plan 2019-49, and the Executive Directors are reflecting this target in each of their individual five year business plans. These plans will also be used to derive the budget targets for 2020/21.

8.3 We aim to provide 20,000 new homes over 10 years.

8.4 We aim to invest £1.5 billion over the next five years in providing new homes.

8.5 We plan to make a surplus of £500m over the next five years.

8.7 Several strategic reviews have already taken place since the merger, and NHG will continue to conduct strategic business reviews where necessary over the period of this strategy and the corporate plan. These reviews will support delivery of the above VFM targets and our corporate objectives

9.0 How does Notting Hill Genesis measure the returns on its diverse range of activities?

9.1 Notting Hill Genesis management accounts measure the financial performance of individual business areas at both the operating and net surplus level, and margin where appropriate.

9.2 From 2019/20 key business areas will report performance against unit cost or cost to income ratio metrics (see section 10) as part of the monthly and quarterly reporting of financial results.

9.2 Annually the return on assets by key business stream will be reported in the Annual Accounts. This will allow Board and our stakeholders to determine how effectively we make use of our housing assets, and that the level of return reflects risk. Table 2 overleaf details this information for NHG for the last year.

Table 2 – 2017/18 ROCE by Business Activity

	2017/18		
	Operating surplus	Capital deployed	Return
	£m	£m	%
Rented housing	94.2	4,790.7	2.0
Shared ownership	14.0	1,145.2	1.2
Market rent	11.3	335.8	3.4
Student housing	2.3	60.0	3.8

- 9.3 Notting Hill Genesis aims to have information on financial returns on all its rented housing assets, and currently has information for 49% of its housing stock.
- 9.4 Each business five year plan for 2019/24 will provide unit cost or appropriate metrics to demonstrate plans for improved efficiency over the period of the plan. These are backed up by more detailed plans for how the improvements will be made.
- 9.5 The Folio Board provides oversight of our non regulated Market Rent activities, and considers investment ratios on regular basis and risk profile of activities. Scheme financial performance is assessed using both operating surplus and margin metrics. This Board comprises external non executives to provide commercial expertise.

10.0 Key performance indicators

The key measures NHG will use to monitor VFM are detailed below:-

- 10.1 NHG will continue to compare its operating costs and performance with those of similar organisations by using the seven RSH VFM metrics and ensure they understand the reasons for any performance outliers. These will be reported annually to Board and monitored quarterly.. The results of any benchmarking exercises will be reviewed by the Executive Board and Group Board.

10.2 NHG will continue to report quarterly to Board the suite of KPIs, that measure NHG performance against its five key corporate objectives. In addition we will develop KPIs that will allow us to monitor the following VfM/business objectives:

- Identify the surpluses generated by our commercial activities that are reinvested in our core social activities
- Ensure that all our businesses generate the targeted surpluses – our commercial businesses are expected to make larger surpluses in percentage terms than social businesses
- Make the targeted £20m full year savings from April 2020
- Generate an aggregate surplus of at least £500 million over next 5 years
- Invest at least £1.5 billion in providing new homes over the next 5 years.

10.3 NHG will report quarterly to Board on financial performance of all key business activities, using appropriate metrics, detailed in the table below.

Table 3 Business Activity Metrics

Business Activity	Metric
Social Housing Business Activities (GN, Temporary Housing, Supported Housing, Leasehold, Key Worker)	Cost per Unit
Non Social Housing Activities (Market Rent and Commercial Properties)	cost to income %

Support business activities, such as Finance and Central Services will also be monitored with cost per unit metrics against target.

10.4 NHG will report quarterly on those metrics used by our rating agencies, to ensure Board and/or Treasury Committee have full oversight of these. This will include:

- EBITDA as a % of turnover
- EBITA as % of all interest paid
- Debt to EBITDA ratio
- EBITDA (social housing) as a % of interest paid

10.5 NHG will continue to develop any additional metrics that are needed to allow Board to effectively monitor performance against the Corporate and VFM objectives.

11.0 Consultation

In producing this Strategy, we consulted with the Group Board, Executive Board and Directors Group.

12.0 Linked Strategies and Policies

Over the last year, NHG have developed new joint strategies and policies, which both support the Corporate Strategy aims and ensure an embedded, strategic approach to VFM and delivery of VFM targets.

12.1 Digital Workwise and IT

Development of the Workwise platform began in February 2017 in heritage Notting Hill, with the aim of automating housing management. The aim is to engage customers, empower employees, optimise operations and transform products and services – and, to transform our business culture for a digital age. In undertaking this transformation of services, this will support making the best use of our staffing resource, ensuring staff are freed up to provide effective and service delivery, and releasing cost savings across the housing management functions. This supports our corporate strategy of providing optimal benefit for our residents and delivering financial strength through cost efficiencies. It is planned to achieve £1.1m net cost savings in 2021/22 and £1.5m in 2022/23.

12.2 Asset Strategy

This new joint strategy, approved in March 2019, has the objectives detailed below that are in line with the Corporate Strategy objectives.

- Better Repairs
- Safer Homes (100% safety compliance and clear layers of protection for our residents) and
- Improved Homes (an NHG quality standard and better value investment plans).

To deliver these priorities, we will reduce the cost of managing our asset service, aiming to reduce the overhead costs by 10% (£1.9m) in 2020/21, supported by the move to digital services through Workwise. A suite of measures will be developed to monitor performance against this strategy.

12.3 Accommodation Strategy

The Accommodation strategy is in three phases over a four year period with the initial examination of the portfolio and the decision to close Camden, then the works to develop an activity based working environment that can over the next 18 months to 3 years can accommodate the current NHG workforce within the existing properties and then to both economically and geographically position the future office portfolio. This

will meet both our people and financial corporate objectives in providing operating cost savings and creating an environment that supports our staff in their activities. Full year savings of £2.4m have been identified from 2020/21.

12.4 **Investment Policy**

This policy provides limits in relation to the amount of capital we can invest in commercial activities as well as minimum returns expected. The limits are monitored regularly by our treasury committee and the Board.

12.5 **Treasury Management**

NHG has an Treasury Plan and Treasury Policy which are presented to the Treasury Committee annually.

12.6 **Development Strategy**

The development strategy sets out how we will contribute to our primary purpose of providing homes for lower-income households. The strategy provides a plan for what we build, the operational geography, procurement and how we will deliver the new homes. Our purpose is to build more affordable homes for Londoners to buy and rent and to deliver more socially integrated communities in a functional, sustainable environment.

12.7 **Geography**

In reviewing NHG stock outside London we plan to undertake a Local Authority level assessment using our criteria: delivering NHG resident promise, financial performance and growth potential, with reference to our Development Strategy.

12.8 **Housing Management Operating Model**

Since merger the Housing and Commercial Services directorates have worked together to co-create a new operating model for Notting Hill Genesis (NHG). The new model has our resident promise at its core and is designed so NHG can deliver the services and improvements that were identified during the consultation with residents in the lead up to merger. This model will deliver, automation, a local service for residents, increased resident satisfaction and cost savings (see section 12.1).

12.9 **Company Structure**

The Company Structures are currently under review to ensure that they match our strategic and operational requirements and the Board is kept apprised of any planned changes to this by the Director of Governance.

12.10 **Operational Strategic Reviews**

NHG will undertake ongoing strategic reviews of business activities, to ensure we meet the corporate objective of financial strength, that our returns reflect risk and businesses achieve optimum surplus. Since the merger Temporary Housing and Care and Support have completed strategic reviews which will deliver improved operating margins, in both cases through reduced portfolio of stock, making best use of our assets and our resources. A review of our commercial activity of Student Accommodation has also been recently undertaken.

12.11 **Governance**

NHG has a Governance structure of sub-committees of the main Group Board who have delegated responsibility to make decisions. This will support our strategic approach in delivering VFM and our corporate objectives. These are as follows

- Audit
- Development and Assets
- Nominations
- Resident Services
- Strategic Project Committee
- The Academy
- Treasury
- Remuneration

12.12 The joint NHG **Procurement Strategy** is planned for delivery by September 2019

13.0 **CONCLUSION**

13.1 We aim to deliver our objectives in a cost-effective and quality-focused way and aim to do this by:

- Having clear strategic objectives which are understood by our staff
- Having robust business planning processes with organisational priorities that are cascaded to teams and individuals
- Performance management and scrutiny processes which drive VFM and continuous improvement
- Understanding the relationships between costs and the quality of our products and services
- Having VFM embedded in all areas of the business via staff training, induction, appraisal and performance management, budgeting, procurement, governance, business planning and service users engagement and scrutiny

13.2 The adoption of this VFM strategy and the implementation of corporate strategy targets outlined in this document will allow NHG to meet both its business needs and regulatory requirements.

13.3 This VFM Strategy covers the period of the Corporate Strategy to March 2021 and progress on its implementation will be reported to the Board annually - this strategy and associated targets will be reviewed each year.