

<p><b>Radian</b></p> <p><b>Value for Money Strategy 2016-20</b> <b>‘More with less’</b></p> <p><b>Version: 1</b></p> <p><b>Date Approved: - 24 March 2016</b></p>	
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*Vision 2025: In summary by 2025 Radian will have a broad customer base, a sophisticated understanding of their requirements and a focus on efficient service delivery, making it the most trusted brand for customers and partners across the south of England. Our VFM strategy underpins this journey; with the efficiency savings we deliver directly impacting our balance sheet, helping us to achieve more with less.*

## 1. Summary

- 1.1 This paper presents the next stage evolution of our Value for Money (VFM) strategy that supports our drive to be one of the best housing and care organisations, deliver quality services for our customers and to live our values. Given the challenges we face, it is of strategic importance to our future.
- 1.2 Since 2009/10 our VFM approach has underpinned delivery of our vision:
  - Our total cost of housing management (including overheads) has reduced by £151.36 per home (to £439.68) – from 29<sup>th</sup> to 5<sup>th</sup> of 31 peers.
  - We have built 1663 homes for rent, 536 homes for shared ownership and provided 8690 equity loans enabling families to buy their own home
  - The cash flow vital to our business has improved with net social and affordable arrears reducing from 3.9% in October 2009 to 1.6% in March 2016 and void loss reducing from 1.5% to 0.65%.
  - Customer satisfaction with the overall service has improved by 7% to 87% (from 15<sup>th</sup> to 5<sup>th</sup> of 31 peers) and satisfaction with neighbourhood has improved from 79% to 85.5%.
- 1.3 Fulfilling Vision 2025 requires us to develop modern service approaches. We will reduce costs yet continue to protect our income stream, achieve an ambitious house building programme delivering distinctive and sought after homes, maintain services that meet the current extensive regulatory requirements and provide investment in communities that minimises expenditure in the longer term.
- 1.4 Welfare reform and four years of rent reduction to 2020 will see Radian face unprecedented revenue challenges. VFM and zero based budget review will by 31.3.2020 (against a baseline of our 2015/16 budget) deliver a *minimum* of £7.5m of financial over-performance (a mixture of savings and additional income) per annum, that will directly impact our balance sheet against our forecasted position. Each department will contribute, with overheads and service cost reducing, greater partnership dividend and modern methods of working deployed. We will continue to encourage the pace, enthusiasm, and ‘whole organisation’ VFM approach vital to our success.

## 2. Background

### Financial Context

We employ 815 full time equivalent staff, providing and managing housing for 20,903<sup>1</sup> households. We spend £84 million a year on managing and developing affordable housing and home ownership opportunities (including £14m of property depreciation). The homes and housing services we provide are primarily funded by rents, housing benefit, borrowing and government grants.

- 2.1 We now need to utilise the strong VFM culture and processes we have developed and re-double our efforts to deliver Vision 2025 and prepare for key 'pinch-points':
- Sustain our income in the light of welfare reform that could impact our cash-flow by between 5% and 12% per annum
  - Cycles in planned maintenance component replacement which require increased stock investment. Particularly a sustained increase in investment between 2020 and 2025 with a total requirement of £112.9m (an average of £18.8m per annum)
  - Harness our resources to provide new supply in a 'no grant' environment.

### Regulatory Context

- 2.2 The Localism Act gives the regulator the power to set an economic standard (under Section 194) and a revised VFM standard is at the heart of this new approach. There is an expectation that VFM will be subject to proactive regulation. To comply we must have a comprehensive approach to VFM, manage our resources economically, efficiently and effectively to provide quality services and homes, and plan for and deliver year-on-year VFM dividends.
- 2.3 The Group Combined Board will maintain and on an annual basis, publish a robust self assessment of our VFM performance. This assessment will be incorporated within the annual VFM statement published each September. This report will demonstrate to customers and stakeholders:
- An understanding of the cost of delivering our services, which underlying factors influence these costs and how they do so, and how costs relate to appropriate benchmarks.
  - The efficiency gains that have been and will be made and how these have and will be realised over time.
  - A robust approach to making decisions on the use of resources to deliver our Corporate Plan, including an understanding of the trade-offs and opportunity costs of our decisions. There will be clear evidence of delivery which may include: new supply, improved services and housing stock, and neighbourhood and community investment.
  - An understanding of the return on our assets, and our approach to maximising them, measured against our Corporate Plan objectives.
  - Evidence that our performance management and scrutiny functions are effective and driving improved performance outcomes.

### 3. What is Value for Money?

- 3.1 VFM means obtaining the best outputs and outcomes in terms of quality and quantity for the cost incurred and inputs used. It is generally defined as the relationship between economy, effectiveness and efficiency.
- Economy is about minimising cost or the use of resources
  - Effectiveness is about doing "right" things – in this context, setting the targets needed to achieve our overall goal of delivering improved value for money
  - Efficiency is about doing things in the most economical way
- 3.2 The overall process should achieve an alignment of the 3 elements so that the inputs and outputs give the best outcomes for customers available from our resources. Because VFM is

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<sup>1</sup> 2014/15 NROSH+ return.

about outcomes, it is important that the services we provide are aligned to customer priorities and needs. VFM is therefore about maximising financial, social and environmental value by unlocking all the resources at our disposal. VFM is about doing the right things and doing things right.

#### 4.0 Our Objectives

- 4.1 We aspire to be best in class. The task now is to maintain this focus and further tap into the latent capacity of our organisation, whilst acknowledging that our progress to date naturally means that we will have to 'look harder' to secure efficiency.

#### VFM Savings

- 4.2 In line with our 2016/17 Budget strategy, we will build upon the £4.9m of real savings and more aggressive income assumptions contained in the 2016/17 budget and will during 2016/17 through zero based budget review, identify and then deliver further financial over-performance (a mixture of savings and additional income) for the financial years to 31.3.2020. Using a baseline of our 2015/16 budget, these savings will by 2020 deliver a net improvement of a minimum of £7.5m per annum, which will directly impact our balance sheet against our forecasted position.

#### Income Maximisation

- 4.3 Income generation will come in five main forms; maximising rent and service charge collection, utilisation of assets, grants, subsidies and tax savings and surpluses generated from new streams of business. Revenue savings will be achieved by more effective procurement and more robust challenge during the budget process. Developing new homes is also a way of reducing unit costs, if we are able to absorb the growth in new homes within our existing establishment. There will be a greater focus and accountability on non core business and a requirement to make a prescribed yield that will contribute to delivery of Vision 2025.

#### Partnership

- 4.4 VFM review will assess the potential for collaborative working with a range of partners' to share or reduce cost whilst remaining in the top quartile of quality of service for the communities we serve. We will challenge how services are procured and consider the benefits of alternative forms of procurement, together with looking at any opportunities for income generation. Reviews will also assess the potential to streamline services so they are delivered from a customer's perspective. As VFM is not just about saving money, the process will also explore what technological advances can be exploited, with an assessment of the costs and benefits of such action.
- 4.5 We will actively explore merger with others, exploiting the resulting synergies and efficiencies in pursuit of this vision.

#### New Homes

- 4.6 We will build homes of all tenures in partnership with others to help create great places to live, work, and enjoy and which contribute to economic prosperity. We will bring expertise and clarity of purpose to partnerships we engage in, will act ethically, and will do what we say. We will be open to opportunities and flexible and agile in embracing them.
- 4.7 Despite welfare reform and a more challenging operating environment, in the four year period to 31.3.2020 we will have 2700 homes in unconditional contract<sup>2</sup>. Subject to the outcome of the Government's 2016-21 prospectus our indicative plans are to deliver 400 homes per annum for shared ownership, rent to buy or market sale and 200 homes per annum for market

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<sup>2</sup> Target revised following the Group Combined Board discussion in June 2016

and affordable rent. The distribution of these homes will be determined by opportunities, affordability for customers, viability and manageability.

- 4.8 Working towards Vision 2025 more of our new homes will be built by us on land we acquire. We will investigate the potential for increasing new housing supply through the use of off-site manufacture and consider the costs and benefits of technologies such as smart meters, remotely controllable components - lights, heating, intruder alarms, secure, monitored entry and integrated fault diagnosis for key components.

**New Service Approaches**

- 4.9 By 2020 will be synonymous with quality in all our service offers, which will be tailored both to market segment and individual customer requirements, and fully digitally accessible, enabling increased self service. Our service platform will be our digital service centre, operating using a hub and spoke model, enabled by increased homeworking. We will have fewer large offices, and a network of strategically located local “touchdown “ bases, co-located with Radian Services depots, or shared with other businesses, including RPs as appropriate.
- 4.10 We will develop additional paid for services:
- Radianmatch.com for sharers
  - Store4U (storage for customers’ “stuff”)

**5. Conclusion**

- 5.1 To maintain our strong progress and fund delivery of our ambitious Vision 2025 in tough times we must approach VFM with renewed vigour. This requires continuing firm commitment from all parts of Radian, led by the Board and executive and clarity of purpose and contribution. Achieving Vision 2025 will require us to continue to challenge ‘how we do things’ and deliver:

**Effective Business Practices:**

- Good governance: transparency, accountability, scrutiny and challenge
- Understanding of what customers’ want – from involvement and insight
- Performance management
- Risk management
- Income, treasury management and cost control
- Professional procurement

**Efficient Operations:**

- Smart business processes
- Investment to improve our digital service platform and create a compelling customer offer
- Reduced overheads, increased partnership and cost sharing and fewer office locations
- A productive workforce – good human resource management practice: the right skills
- Development, delegation, encouragement and motivation and appropriate staffing

- 5.2 Delivering Vision 2025 with reduced resources (from a cost efficient base) will be challenging but achievable. Key to success will be our mission of modern, digital service delivery, partnership and cost sharing and maintaining excellent levels of staff engagement, amongst an agile staffing structure.

**6. Review Details**

Approved by	GCB
Date of next review	February 2020
Strategy owner	DHCS