



Better value for Social Housing

**Transforming through cultural
and operational change**



Social housing

The transformation agenda

Even before the EU Referendum vote, there were huge shifts in the social housing market, just in the space of a few months. Those who may not be contemplating a mega-merger right now still need to think big – and be prepared to make step changes in order to play their part. Rent reductions are forcing real efficiencies on the sector. At the same time, devolution deals are presenting big opportunities for housing associations to deliver social value. But to do this, many associations need to examine their operating models and question whether they are operating as efficiently as they could be. Focusing on cost cutting or tactical changes alone will not deliver the sustainable improvement needed. It is too early to foresee the impact of the Brexit vote on the sector in detail. However, there is a real possibility of further rise in demand from the economic downturn and in the longer term, increase in cost of capital, as well as the cost implications of very low gilt yields. Clearly these scenarios emphasise the urgency of taking action now.

Recent evidence has revealed the practical problems in executing such step changes. The typical cultural barriers to change in the sector are often magnified by the legacy of housing association growth through mergers and acquisitions.

This has led, in some cases, to fragmented processes, a lack of suitable enterprise systems and ineffective usage of data. We believe that end-to-end transformation is in some cases the only answer to bring about the changes needed.

So what are the fundamental areas that you should be looking at?

The first and most obvious focus area is the customer, who should be at the heart of everything you do:

- **The majority of customer contact is often related to complaints (such as repairs not done, or promises not kept).** Effective information sharing and more cross-functional ways of working can improve efficiency significantly. The operating model here needs to be reviewed so that systems support this end-to-end customer view.
- **Frictionless self-service at low cost is vital.** There is huge scope to use digital technologies to offer personalised services to the majority of customers who are capable and ready to use such tools. This will significantly reduce costs and free up valuable resources, as well as improving the customer experience

- **There will be vulnerable customers who require face-to-face contact.** They will need to be correctly targeted and supported. Designing the right processes to reduce duplication and maintain coordination is essential. Also, a strongly data-driven approach will help associations understand the needs of this segment in advance and set up a proactive culture of customer service intervention.

If the customer is the heart of the organisation, then the property is the body. This needs proper care. Housing associations' commercial success effectively depends on their ability to manage their assets to lower the total cost of ownership:

- **Customer repair requests are the real moments of truth for any association.** Associations and their customers can end up dealing with a plethora of contractors, making performance management a nightmare. They need a fundamental rethink around how to select and incentivise the best contractors, and standardise contract types. They also need to improve information sharing and put proper controls in place when repair visits are scheduled.
- **The property market loses significant value by not managing voids efficiently.** Average void duration varies widely between associations. The best use processes and incentives to push turnaround days towards single figures. For example, scheduling maintenance appointments in advance can cut waiting periods.
- **Planning repairs better can also increase efficiency.** Having good asset information data and making smart decisions about when to replace reduces the total cost of maintenance.
- **Associations must aim for – and maintain – full compliance with gas and fire regulations:** Nothing short of 100% is acceptable. They also need to have the right controls processes including recovery mechanisms for non-conforming cases.

In our experience, an organisation able to address the above areas will be able to increase capacity and therefore deliver on social value, increasing their reach to existing and future customers:

Getting the right strategic balance between how much and what type of property to build, what to sell or rent, and whether to sell at market rates or through an affordable scheme.

These are some of the most important strategic questions in these challenging times. Strong customer and market insight gained through market research and contact centre feedback is vital in understanding these issues and taking the right decisions.

- **One of the largest potential financial risks lies with development contractors, who need to be carefully managed to get the right level of cost, quality and timescales.** Effective defect management is also key.
- **Success is only possible if you have the right enablers in technology, data, analytics and governance.**
- **It won't be easy to make changes that affect multiple parts of a large organisation against the backdrop of strong cultural barriers and legacy fragmented processes and systems.** And, given the tectonic shifts affecting the market, housing associations do not have the luxury of time.

These changes will potentially require a fundamental transformation to new ways of thinking about customers, markets and operating models. They are not simple changes, but they are necessary. Responding to them is the single most important challenge for housing associations – the only thing you cannot do is not to respond at all.

But do not lose heart. There are good examples of organisations that have taken up similar challenges and transformed themselves; managing to become more commercially successful while providing better value and service to society in the process. As ever, challenging times bring opportunity as well as potential difficulty.

KPMG recently acquired Boxwood Limited a specialist consulting firm in operational transformation. We have begun to work together in the social housing sector. Below are two case studies from their projects in the property sector, which illustrate the returns from increased efficiency and the additional social value that can be generated:

Case Study 1 (Grosvenor)

Core operating profit up fourfold in two years.

Turning a proud history into a bold new future at Grosvenor, resulting in dramatically improved profitability.

What we had to do

- The existing business owned £3.5b in assets but annual profit needed to improve
- Without damaging the ethos of the company and service to customers, plan and implement a transformation programme to increase year on year profit

What we achieved

- Radically improved the operating model, aligning the customer journey with new simplified core processes, to maximise the use of assets and all resources.
- Core operating profit improved Y1 from £8 – 16.4 million, Y2 from £16.4 – 38 million, and Y3 from £38 – 52 million.
- Capital return increased from £40-97 million.
- Customer advocacy increased by 10%.
- Headcount reduced by 20% and remaining team strengthened.
- Transformed the organisational culture to be more commercial, disciplined and execution oriented.



Case Study 2 (Unite)

Reducing build costs by 13%.

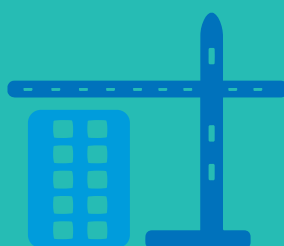
An innovative property developer was one-and-a-half years into a five-year plan to leverage their investment in a purpose built factory, but with little progress made. We were commissioned to reduce building costs.

What we had to do

- Create a unique building delivery solution to increase off-site manufacturing.
- Reduce like-for-like building costs by 5% in five years.

What we achieved

- OSM content increased substantially with three transformational innovations delivered in the first year, and six the next.
- Build costs reduced by 13% in less than three years.
- A reduction in stock released £8 million cash and the factory secured its first external customer with a contract worth £6 million.
- Project and NPI lead times were significantly reduced, and revenue and margin at the factory were increased.



Harry Mears

**Head of Social Housing, Associate Partner
KPMG in the UK**

T: +44 (0) 23 80202093

E: harry.mears@kpmg.co.uk

Piers Ricketts

**Partner, Public Sector
KPMG in the UK**

T: +44 (0) 20 73111357

E: piers.ricketts@kpmg.co.uk

Ravi Lal-Sarin

Senior Manager, KPMG Boxwood

T: +44 (0) 20 7311 4436

E: ravi.lalsarin@kpmg.co.uk

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