Value for money self-assessment 2015/16

This section is intended to provide our stakeholders with an overview of how we are delivering value for money (vfm). We also publish a summary of the value for money of services we deliver to our customers in our customer newsletter and on our website which can be accessed here. We outline our strategy in the Annual Report. Our approach to value for money delivery is:

- Maximising the number of new homes delivered to help meet local housing need;
- Building funding capacity to invest in more new homes and services by improving return on assets, reducing costs and increasing income and attracting new investment;
- Achieving more happy customers for the same or less.

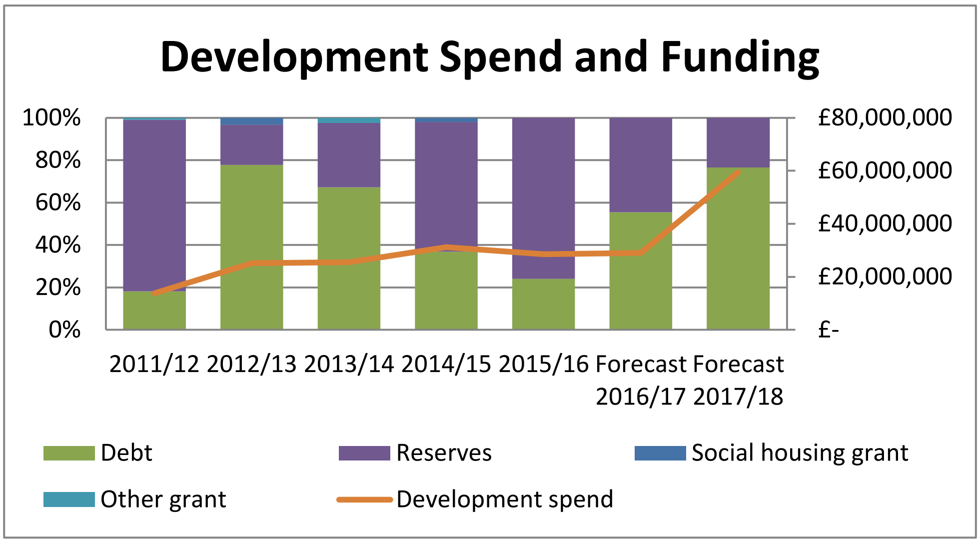
We monitor VFM performance by setting cost and outcome targets over the short to medium term. We monitor performance against our previous results, the targets we have set ourselves and against the performance of other landlords (South East LSVTs with a stock of 2500 to 7500 units). Whilst benchmarking has limitations in terms of comparing like for like due to the individual characteristics of registered providers it does give us an essential view of how our performance compares.

Summary

- We invested £28m in our new homes programme delivering 252 homes without public grant;
- The number of new homes delivered puts us at the top of our peer group for new homes delivery relative to our size;
- EBITDA increased by 16.5% from £20.4m in 14/15 to £23.8m. Our operating margins increased from 42.6% in 14/15 to 44.6% in 15/16;
- Our operating margin remains the highest in our peer group. This strong operating performance underpins our ability to invest in our ambitious new homes programme;
- We have responded to the challenge of reduced rental income following the summer budget by launching a plan to reduce operating cost and attract new investment;
- The cost of delivering services increased by 6.3% on a per unit basis. This was due to a significant increase in planned maintenance activity and if you remove this headline cost, the cost per unit increased by 1.7% in the year;
- We compare favourably on a cost per unit basis in the latest sector wide benchmark[1]. Our performance is amongst the top 25% of providers;
- Cost of delivering specific services is more varied. We are better than average on overheads, repairs and estate services. We are generally below average on housing management services;
- Overall satisfaction, our headline measure of the service provided, dropped from 91% in 14/15 to 84%. We failed to sustain the large increase we delivered in 14/15;
- This performance puts us in the lower middle quartile of our peer group. We have several projects in progress to increase satisfaction over the coming 2 years to bring us back to 91% by 17/18.

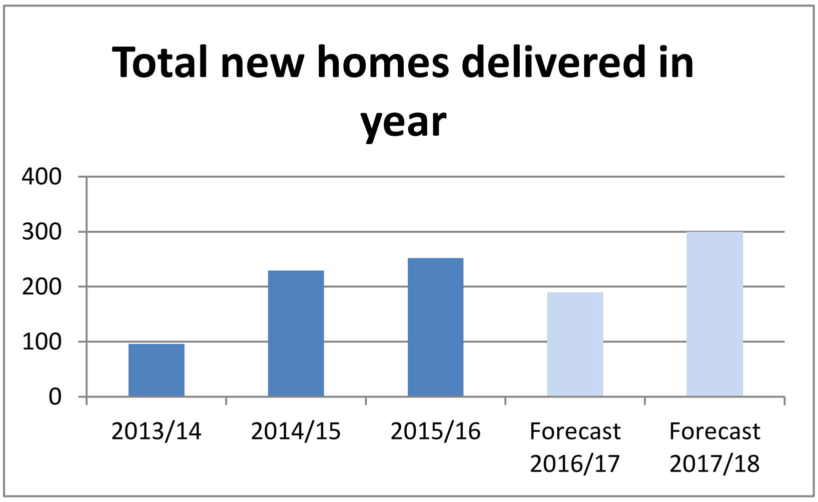
[1] HCA VfM Analysis from Global Accounts 2014/15

New homes delivery



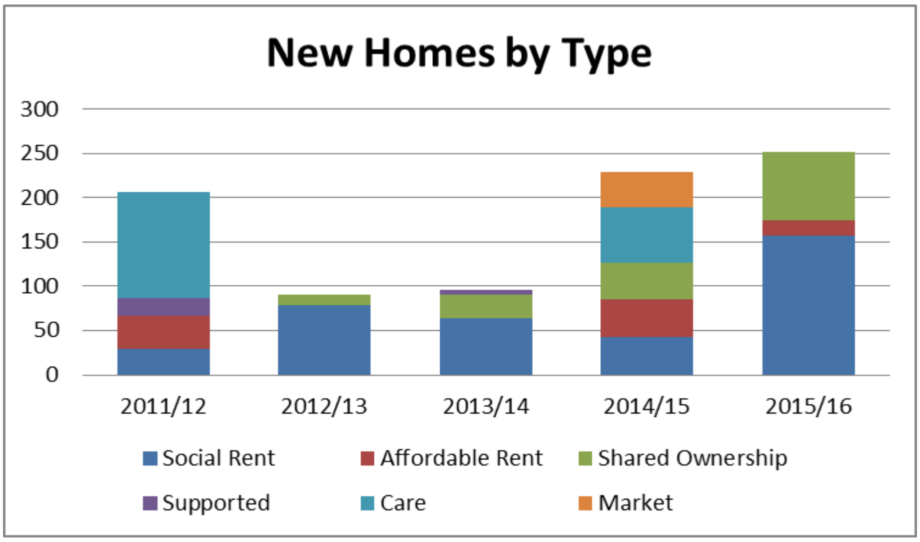
Delivering more homes is half of our core purpose and sits alongside creating happy customers. The supply challenges in the UK housing market are well known. We want to be part of the solution and this is why we set ourselves the ambitious challenge of 2020 new homes by 2020 when we revised our strategic plan in 2014. Two years into our plan we already have 1044 homes either delivered or in the pipeline.

Last year in 15/16 we invested £28.5m in new homes (both completed and in progress) and we plan to do the same in 17/18. We received no public (social housing) grant funding in 15/16.



We delivered 252 new homes in the year 15/16, an increase of 12 on the previous year. This puts us as the top performing organisation in our peer group of 21 other Housing Associations in the South East for number of homes delivered relative to size. We've also done a considerable amount of work on securing sites for future delivery. Our delivery pipeline stretches out to 2020 new homes already and our current commitments for the next two years are shown here.

We remain focused on delivering new units at social rent in line with locally identified housing need. Although delivering new units at social rent is difficult, and the challenge has increased following the rent cut announced in the 2015 summer budget, we are pleased to report that 65% of our programme was for socially rented units.



Last year we strengthened our development team with the recruitment of two senior staff to focus on securing and delivering new opportunities. The new structure has allowed us to significantly improve on our original target of 187 new homes in the year to deliver 252 by the end of 2015/16 whilst delivering upper quartile performance for the ratio of staff involved in the delivery of new units.

New Homes				
	Current	Progress	Benchmark	Comparison
No of FTE staff invovled in the delivery of 100 development units (averaged of 3 yrs)	1.8	⇨	4.0	●
New units delivered in year as a % of current stock	5.1%	⇧	2.3%	●
Satisfaction with new homes	100%	⇧	98%	●

Below are some of our priorities for the coming year:

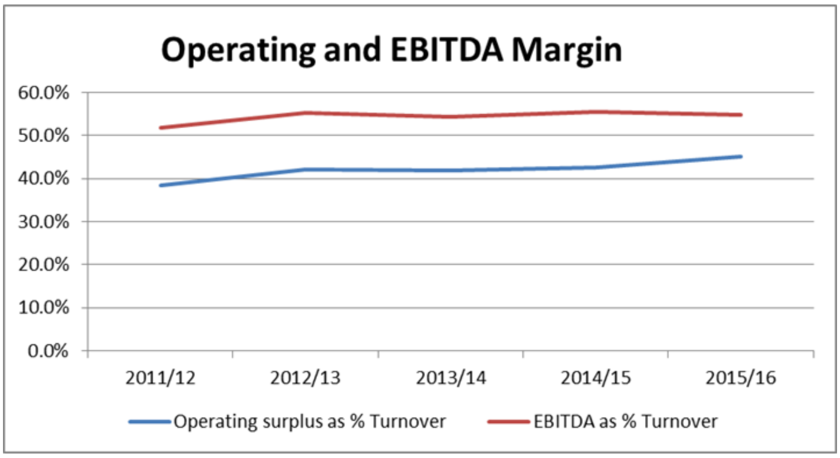
- Deliver 289 new homes
- Approval for a further 175 new homes
- Continue to deliver our Happy New Homes work to ensure that the handover and defect period runs smoothly
- Investigate new Low Cost Home options

Performance against last year's objectives

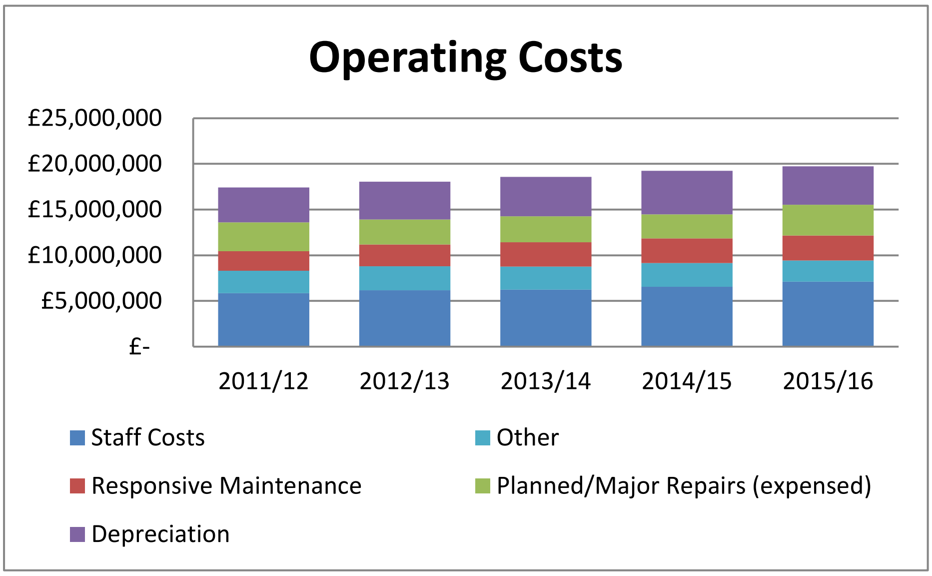
Objective	Outcome
Deliver 187 new homes	We handed over 241 units last year and acquired a further 11.
Strengthen the development pipeline for 16/17 to target 300 new homes	We now have 1044 homes delivered or in the pipeline and are targeting 189 homes in 16/17
Focus on delivery of handover and defect period to increase satisfaction with new homes	We built a Happy New Homes process to ensure that Development are working closely with other teams around the organisation. We achieved 100% satisfaction in the year.
Deliver planning consent to increase new units on existing sites	We did not achieve the consent within the financial year, although we continue to work on this objective.
Review Development Strategy in light of changes to income following the budget	Our Board have approved the Development Strategy which still has a headline ambition of 2020 new homes by 2020. This is significantly more difficult following the rent decrease but the ambition remains and we continue to work on ways to finance delivery.

Building funding capacity to invest in more new homes and services

Financial Highlights				
	2013/14	2014/15	2015/16	
Turnover	£34.4m	£36.7m	**£43.3m**	
EBITDA	£18.7m	£20.4m	**£23.8m**	
Operating Surplus	£14.4m	£15.7m	**£19.6m**	
Total Stock	4937	5148	**5314**	
	Current	**Progress**	**Benchmark**	**Comparison**
EBITDA as % Turnover	54.9%	⇨	N/a	
Operating margin	45.2%	⇧	38.0%	
Weighted average cost of borrowing	4.2%	⇨	3.9%	
ROCE	3.9%	⇧	N/A	
Overheads as % of turnover	8.5%	⇧	8.2%	

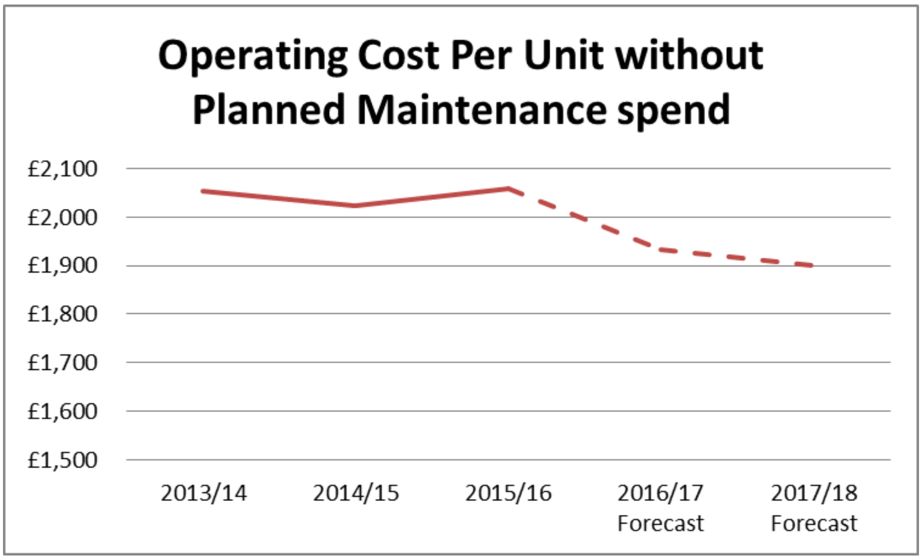


Our ambitious development goals and minimal funding through grant mean that we are reliant on generating strong surpluses to reinvest in new homes and in 15/16 there was a 25% increase in the surplus generated, primarily due to Shared Ownership units delivered and their subsequent sales. Profit from non-social housing activities was £1.05m and this remains a small but important contributor to overall operating surplus (5%). Our operating margin of 45% puts us top of our peer group and ensures that we can invest in growth and service the debt that supports new home delivery.



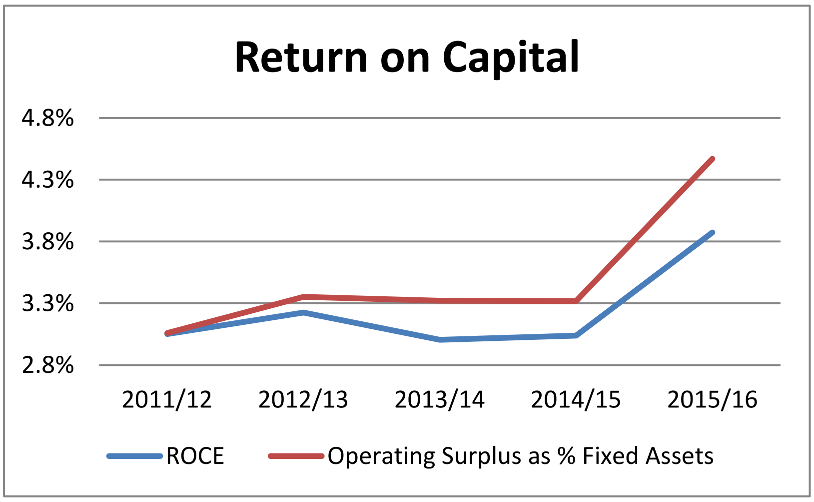
In 2015/16 total operating costs (excl. sales) increased 2.5% to £19.73m. Operating costs excluding depreciation increased by 9.8% in nominal terms or a 9.0% increase in real terms. This was driven mainly by a 29% increase in planned maintenance spend in line with our Stock Condition Survey and Stock Improvement Programme.

Social Housing Operating Cost per Unit has increased by 6.3%. If Planned Maintenance spend is excluded from the Operating costs then spend increased by 1.7% in the year from 2014/15, due to salary increases aimed at developing and retaining good staff and a £150k increase in insurance premiums. As you can see from the graph opposite we have responded to the rent cut in the summer budget with a plan to reduce operating cost per unit. Forecasts are in 15/16 terms.



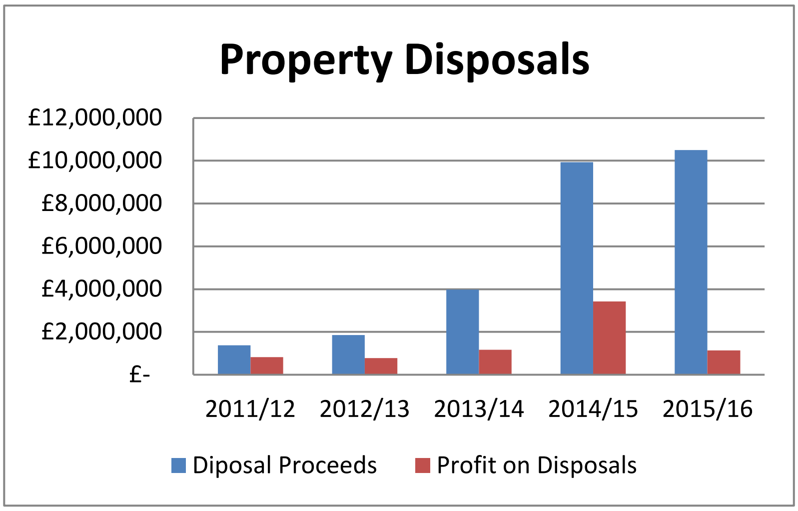
We continue to build on our procurement work and saved £239k last year through either re-negotiation of contracts or bringing work in house. The largest savings come from saving on material supplies for both planned and responsive repairs as well as software suppliers.   We continue to use a number of frameworks through procurement clubs in order to benefit from the collective buying power of the sector. In 2015/16 we also began a series of 'Smarter Working' reviews aimed at reducing costs and improving efficiency. The Estate Services review delivered £89k of savings whilst the Rent Arrears review reduced arrears by 19.5% from £689k in August to £555k in March.

Debt increased by £28.4m to £305m in order to fund new homes. Although debt is increasing we continue to control interest cover and gearing in order to manage the risk. Capital employed has reduced from £515m to £506m. This is due primarily to the reduction in valuation following the rent cut announced in the summer budget. Return on capital employed has increased from 3% in 14/15 to 3.9%. Operating surplus as a percentage of fixed assets has increased from 3.3% in 2014/15 to 4.47% in 2015/16 and remains above ROCE as a result of timing differences between resourcing the funds to invest in new homes and turning that investment in to revenue generating assets.

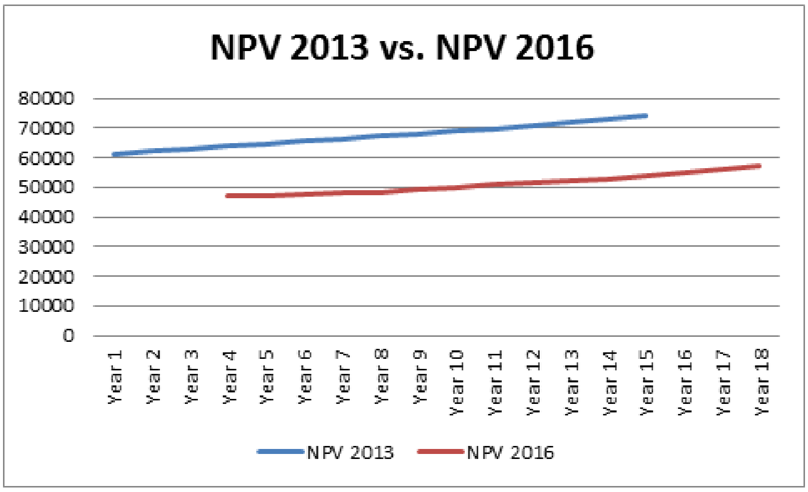


As well as raising new debt we have attracted direct investment into new homes via a joint venture with the Royal County of Berkshire Pension Fund. This is our first scheme directly funded by an institutional investor and we are acting as manager as well as joint investor. We hope to do further schemes like this and use our management skill to attract third party investment and deliver more new homes.

As part of our 2020 vision we developed our new strategic asset management approach. This includes: planned maintenance investment to reduce future costs, re-development and re-configuration to increase supply or income as well as the sale of existing assets where the NPV suggests that we can do more to meet our happy customers and more homes objective with a capital receipt than with the existing asset.



We have continued to make good progress selling property where a receipt could better meet our aims than retaining the asset. Sales receipts increased from £9.93m to £10.5m (5.7% increase). We sold four units of social housing assets when they became empty. These four units had a combination of high market values and below average net present value (NPV) and/or energy performance. The surplus of £1.1m will be re-invested in delivering more new homes.



We have again made progress on reducing the number of assets with negative NPVs. This is just 0.7% of stock which is above the target we set ourselves of 0.5% but has increased as a result of the rent reductions over the next four years, without this it would have been 0d we are reviewing our income.3%. The majority of our negative NPV units are supported living accommodation an and expenditure on this portfolio. Unsurprisingly the rent cut has had an impact on the NPV but overall the portfolio remains strong.

In 14/15 we completed a large project to evaluate the opportunities to return and build new homes on existing sites. In 15/16 we worked with local planning departments to appraise 50 sites and in 16/17 we will continue to develop those sites. We are currently working with the Local Authority to receive five consents for sites going forward which will deliver 48 new units.

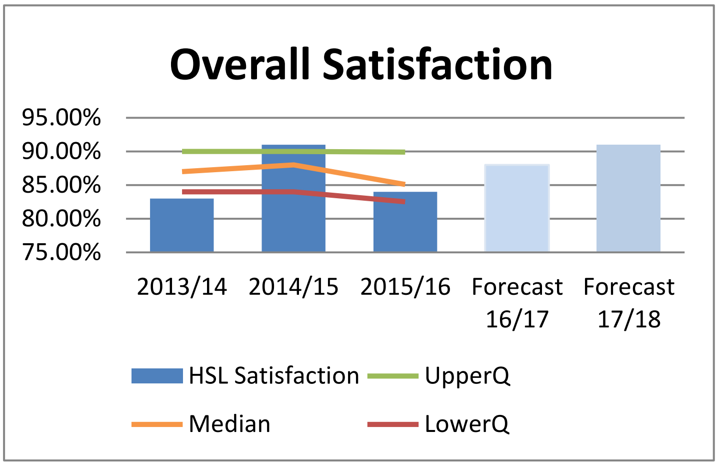
Here are some of our priorities for the coming year:

- Reduce operating cost by 6%;
- Review funding strategy;
- Continue to attract direct investment in new homes and act as manager;
- Disposal of units with high open market value and poor NPV performance.

Performance against last year's objectives

Objective	Outcome
Deliver new procurement and efficiency savings of at least £150k pa	Delivered £239k of procurement savings and a further £89k from Estate Services Smarter Working review and £134k reduction in rent arrears following the review. Combined this delivered £462k of savings in the year.
Review operating cost and agree new operating cost targets by 2020	Cumulative savings of 13%
Continue building relationships with investors – particularly focussed on getting direct investment in to delivering new homes we do not have capacity to build ourselves	We launched a joint venture with an institutional investor.
Disposal of units with high open market value and poor NPV performance. These sales will be limited according to when they become available and our ability to suitably replace them	4 Properties were sold which returned a surplus of £1.13m to be reinvested in delivering new homes.
Replace the number of units with negative NPV from c.1% to 0.5% stock	We achieved this but the rent reduction has had a further impact.

Happy Customers



We are disappointed to report that satisfaction dropped from 91% to 84% in 2015/16, which places us in the middle lower quartile when compared against our peer group. In reviewing the data we understand that the biggest change was a shift from satisfied to neither/nor rather than a move to outright dissatisfaction. Despite the general downward trend, our Supported customers reported a strong increase in satisfaction from 89% in 2014/15 to 92%. Our Sheltered customers sustained their high satisfaction score, dropping just 1% to 94% which gives us Upper Quartile performance for this group of customers.

Whilst overall satisfaction has decreased, the cost of delivering the services, excluding planned maintenance, have broadly stayed the same. As detailed in the summary we compare well on the headline social housing cost per unit comparison from the Global Accounts. Our headline performance puts us in the top 25% of providers. The table below shows our performance and the sector comparison from 2014/15:

HCA VFM Analysis - Global Accounts						
	Headline social housing CPU	Management CPU	Service Charge CPU	Maintenance CPU	Major Repairs CPU	Other Costs CPU
Housing Solutions	£2,750	£1,040	£280	£520	£740	£180
Sector Median	£3,550	£950	£360	£980	£800	£200

Our Costs per Unit benchmark in the top quartile for all areas with the exception of Management Costs which falls into median quartile performance. We also have a higher percentage of Supported Housing and operate in a more expensive region than the sector average.

The absolute costs of delivering specific services and how we compare to our peer group:

Total cost per property of delivering specific services				
	Current	Progress	Benchmark	Comparison
Responsive and Void Maintenance	£ 776		£ 797	
Planned and Cyclical Maintenance	£ 1,320		£ 1,605	
Rent Arears	£ 155		£ 140	
Resident Participation	£ 59		£ 70	
ASB	£ 54		£ 55	
Tenancy Management	£ 149		£ 108	
Estate Services	£ 168		£ 197	
Lettings	£ 78		£ 74	

6 of the 8 services show either a reduction in cost or maintaining costs. The two services where costs have increased are explained as follows:

- Planned and cyclical maintenance has increased as a result of additional planned maintenance spend but this is identified replacements and improvements in line with our investment plan.
- Tenancy management increase is primarily due to increased use of temporary staff as a result of maternity leave and sickness.

Performance remains strong across our key performance indicators. Outputs have improved in four areas, stayed the same in two and reduced in one. Performance on rent collection has improved significantly in the year with an additional £130k collected in rent. Days to let remains top quartile performance, although it has increased on last year due to an increase in turnover of stock.

Service Performance Outputs				
	Current	Progress	Benchmark	Comparison
Average days to complete reapirs	8.2	→	8.2	🟢
Current Tenant Rent Arrears	1.98%	↑	2.0%	🟡
Days to relet property (standard relets excluding major works)	15	↓	19	🟢
Additional income generated for residents through the Financial Inclusion Service	£ 194,545	↑	N/A	N/A
Decent Homes Standard	100%	→	100%	🟢
Customer tenancy visits	500	↑	N/A	N/A
% ASB cases successfully resolved	88%	↑	98%	🟡

Despite improvements in performance in a number of areas, satisfaction has dropped and is disappointing in comparison to last year as we failed to maintain the gains made in 14/15. Of the areas which changed, 4 of the areas place us in the lower middle quartile and 2 in the lower quartile.

Customer Satisfaction Outcomes				
	Current	Progress	Benchmark	Comparison
Overall	84%	↓	85%	🟡
Repairs and Maintenance	78%	↓	82%	🔴
Quality of Home	85%	↓	86%	🟡
Neighbourhood	82%	↓	87%	🔴
Views taken into account	74%	↓	71%	🟡
Value for Money of Rent	84%	↓	84%	🟡

The value graph below is intended to combine the cost and performance data above to give an overall picture of value from services provided. It considers our cost and performance and how they compare to other providers year on year. The following services are shown:

1- Responsive/Void Maintenance, 2- Rent Collection, 3- ASB, 4- Planned Maintenance, 5- Lettings, 6- Tenancy Management, 7- Resident Involvement, 8- Estate Services

2014/15

2015/16

Below are some of our priorities for the coming year to improve our performance and address some of our weaknesses:

- Roll out our new 'POD working' approach which puts staff into multi disciplinary teams to look after geographical areas of stock rather than working in traditional functional teams;
- Begin the initial phases of a new CRM system project – which will be delivered in 17/18;
- A programme of projects in the Asset Management department to improve efficiency;
- Deliver a new website with more online functionality to allow customers to manage their account online and find the answers they need quickly.

Performance against last year's objectives

Objective	Outcome
Focus on improving collaboration between teams through a trial of geographical rather than function based delivery of services.	Following a successful trial our 'POD' way of working will be rolled out across the organisation in Q2 2016/17
Improve communication and interactions with our customers in supported housing homes so customer satisfaction is in line with the wider rented stock.	Supported customers were the only customer group who showed an increase in satisfaction from 89% to 92%.
Homeowners are our customer group who are the least satisfied with our services. We will focus on better communication of planned maintenance work and service charges to	Homeowner satisfaction dropped further from 70% to 58%. We have recently made some team structure changes which we believe will address overall performance in the long term. We have

Homeowners to increase their overall satisfaction.	also introduced a communication strategy for planned works.
Deliver Smarter Working process reviews in three areas (caretaking, rent collection and repairs management) in order to add value and reduce the cost of services in the bottom quartile.	• Caretaking Service review resulted Cost Per Property reducing from £195 to £178 bringing us into top quartile for costs. Although overall satisfaction dropped the drop was lower than in other areas across the organisation and increased for homeowners from 58% in 2014/15 to 67%. • Rent Arrears reduced by 36% following the review and are marginally outside of upper quartile performance, which is the best performance in the Organisation's history. • Repairs review has taken place and the projects to deliver the changes are in the early stages at time of writing.

Notes:

1. **Cost figures are shown in nominal terms unless stated otherwise.**
2. **Benchmarking comparisons are with a peer group of similar landlords (South East LSVTs with a stock of 2500-7500 units) unless otherwise stated.**
3. **Total cost of delivering specific services are calculated using the HouseMark benchmarking systems and relate to the cost of services to our rented affordable housing stock. The figures include an area cost adjustment to make a fair comparison across different operating areas.**
4. **Progress arrows show if our performance has improved (shown by an upward green arrow), stayed broadly the same (horizontal amber arrow) or worsened (red downward arrow) when compared to 2013/14.**
5. **Where benchmark performance is shown in the tables it shows the latest median performance available at the time of writing for the peer group.**
6. **The comparison traffic light shows how we compared at the latest benchmark. A green indicator shows our performance puts us in the top 25% of providers in the peer group. An amber indicator shows our performance places us in the next 50%. A red indicator shows our performance is in the bottom 25%.**
7. **In the value graphs (page 3) each dot on the graph represents each service. The vertical axis shows our cost position compared to peers. The lower we are on the graph the better the cost of the service is in comparison to our peer group. The horizontal axis shows our performance position in relation to our peers. The further to the right of the graph the better our performance in comparison to our peers.**