Value for Money Self-Assessment 2016-2017

1. VFM strategy

Achieving Value for Money and achieving efficiencies are integral to activity throughout Reside. We are committed to ensuring that services are delivered in an effective and efficient way to represent the best possible value for our tenants. Demand for our services is constantly increasing yet resources are limited. Hence there is a constant search for savings for reinvestment into those services which have a major impact on tenants. We strive always to maintain a balance between operating a commercially sensible approach and meeting the expectation of our tenants.

There is a golden thread between our Business Plan objectives and our VFM Strategic objectives. Looking at the corporate objectives for 2017-22, all of the objectives have a direct or indirect vfm linkage as demonstrated below. Therefore, the corporate objectives have been adopted as vfm strategic objectives.

	Vfm dimension
Culture change	Promoting a culture where bought-in goods and services are market tested periodically and the needs of the organisation continually re-evaluated to ensure that we only purchase what we need Developing an organisation where technology and process support efficiency and continuous improvement
Client Focus	Focus on client to ensure that cost and resources are directed to what matters to tenants
Growth in Income	Income growth increases impact/reach and ensures that fixed overheads can be spread over the wider base and thereby controlling unit costs The growth in income is supported by an increase in the housing stock, whether owned or leased
Profile	Greater awareness of the Reside brand leads to a greater marketing opportunities and bidding success
Quality	Closely allied with client focus above and is concerned with the measurement of the quality of the housing service through customer satisfaction data for example
Value for Money	In this context is intended to cover areas such as awareness of cost and value drivers in the business and how these compare to others in the sector
Staff	Value of a motivated workforce where staff ‘go the extra mile’ and have the opportunity to solve problems and create opportunities

2. Reside's Performance in providing Value for Money

We set out in the tables below the key summary financial and cost/performance metrics to enable our stakeholders to make their own judgements about our VFM performance. The metrics comprise suites of indicators which are measured internally only and others which are capable of being benchmarked against peers.

2.1 Summary Income & Expenditure

Table 1 - 5 Year Financial Highlights

Year ended	2013 £000	2014 £000	2015 £000	2016 £000	2017 £000
Turnover	6,033	7,132	8,914	10,589	12,435
Operating Surplus	596	496	1,106	1,841	946
Total comprehensive income	410	436	1,008	6,016	1,382
Operating margin	9.90%	6.90%	12.40%	17.40%	7.60%
Net worth (£000s)	3,400	3,836	4,844	10,860	12,242

Steady year on year growth is evident from the table above reflecting a growth in properties and tenancies under management. Impairments in the value of property assets are recognised in the operating surplus and consequently the margin. The 2016-17 operating margin was depressed by 3.1% over the previous year as a consequence of property impairments.

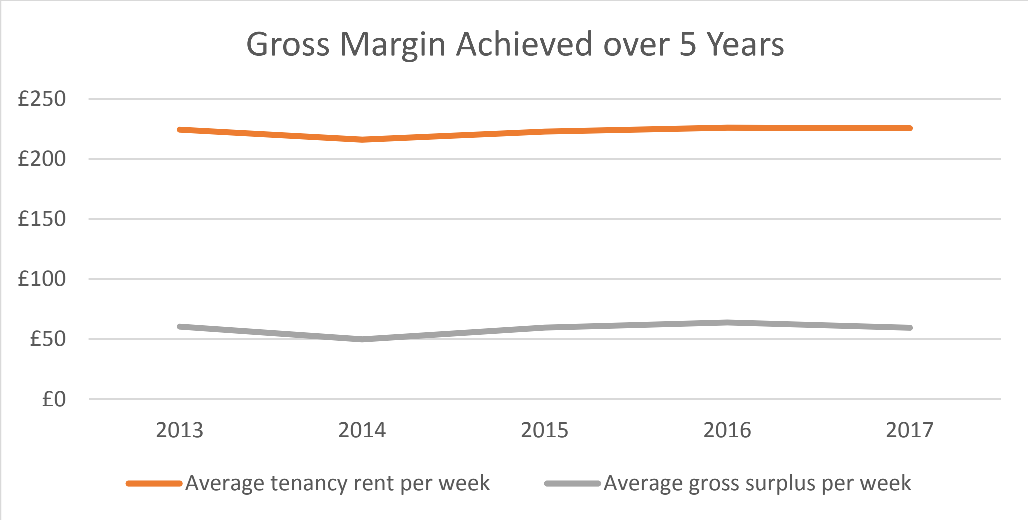
2.2 Internal Income & Cost Data

The table below provides key internal income and cost metrics over the last five years.

Table 2 – Income & Cost data
£ per tenant per week

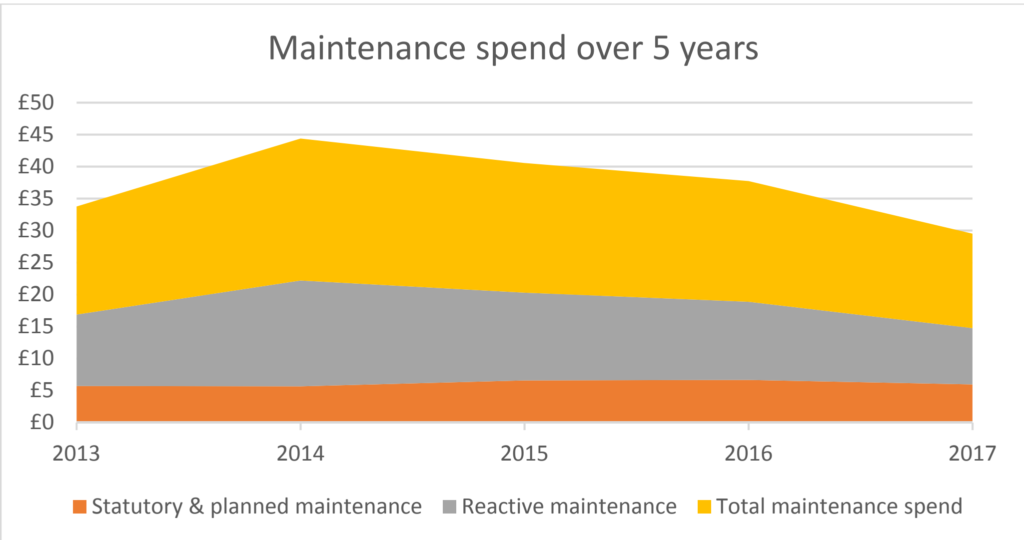
Year ended	2013	2014	2015	2016	2017
Average tenancy rent	224.37	216.09	222.74	226.07	225.57
Average lease rent	142.36	138.68	136.86	137.97	143.58
Average direct costs	61.17	60.30	56.22	50.60	45.16
Average gross surplus	60.43	49.79	59.59	63.87	59.48
Average net surplus	24.61	15.23	28.60	44.60	22.48
Overall central costs	31.41	29.20	26.18	27.12	29.37
Statutory & planned maintenance	5.71	5.66	6.58	6.66	5.96
Reactive maintenance	11.17	16.53	13.70	12.20	8.79
Salaries & related costs	21.83	20.09	18.06	19.65	19.54
Legal, professional & insurance	2.10	2.27	1.92	1.78	3.52

Chart 1



The chart above shows that tenancy rent remained fairly static over the five year period but the gross surplus has reduced to £59.48 in 2016-17 from £63.87 in 2015-16. Expressed as a margin percentage the result is a reduction to 26.4% in 2016-17 from 28.2% in 2015-16. Overheads and non-direct costs are deducted from the gross margin to arrive at the operating surplus which was discussed in Section 2.1

Chart 2



Total maintenance spend per unit has reduced significantly over the five year period and the main contributor to this has been a reduction in reactive maintenance spend. This reduction in cost is encouraging given Reside's tenant group, a significant proportion of whom do present with challenging needs and often complex and complicated housing needs. Year on year expenditure can be affected by cyclical expenditure which may occur in individual years only. Furthermore, in 2016-17 we have had a higher proportion of leases without a repairing obligation and that has also contributed to the lower spend.

2.3 Benchmarked Cost Data

The HCA Global Accounts is a database of financial data collected by the HCA compiled from returns made by English Housing Associations with more than 1,000 units. The last available data is for the 2015-16 year.

The following RPs were selected as a comparator group because 60% or more or their stock is supported housing stock rather than general needs stock.

- Advance Housing & Support Limited
- Look Ahead
- St Mungos
- Golden Lane

Progress Care Housing Association is a close comparator to Reside in terms of their business model but the results of Progress Care are consolidated into the results of the Progress Housing Group. Their data is submitted at a group level to the HCA Global Accounts so the data submitted is not useful for comparison.

While the selected four housing associations operate primarily in the supported housing sector, their business models are different to ours insofar as all of the providers provide care and housing.

The following measures are captured as part of the HCA Global Accounts and differences between the results for Reside and the comparator group will be explored and explained insofar as possible.

- Management costs per unit
- Maintenance costs per unit
- Service charge costs per unit
- Major repairs costs per unit

The four components above make up what is termed (by the HCA) **the headline social housing per unit** which it sees as the best general measure to begin a consideration of cost. This measure excludes items such as depreciation, interest payable and impairments.

Table 2 – HCA Global Accounts Data

Figures in £000s	Headline Social Housing Costs per Unit (CPU)	Mgt CPU	Service Charge CPU	Maintenance CPU	Major Repairs CPU	Other social housing CPU
Advance	11.04	2.25	1.69	1.59	0.19	5.32
Golden Lane Housing	4.89	1.94	0.21	0.82	0.27	1.65
Look Ahead	20.92	3.18	2.46	0.61	0.27	14.41
St Mungos	25.19	7.55	3.30	0.46	1.98	11.90
Reside Housing	9.46	7.82	0.45	0.59	0.01	0.33

Headline Social Housing Cost per Unit

We report a low unit cost relative to our peer group and this is due to the fact that we do not offer care and support.

Golden Lane is the only organisation with Headline CPU lower than Reside. Golden Lane was established by Mencap and was registered as an RP in 2015. Support is provided by other providers including through Mencap Personal Support. It has a higher ratio of owned to leased stock than ourselves, 56% owned stock and 44% leased stock (based on their 2015-16 financial statements). This has the effect of reducing overall headline social housing costs per unit because of reduced Management CPU. This point is explained in the paragraph below.

Management CPU

Our Management CPU is the highest of our peer group. Around 90% of Reside's stock is leased stock which is significantly higher than our peer group. Lease rent payable is included as a management cost and that cost does not arise for a provider who owns stock so our Management CPU is driven up because of our stock tenure profile.

If we recalculated our management cost per unit to match the stock ownership profile of Golden Lane, our Management CPU would reduce to 4.67 compared to the 7.82 figure reported. With this adjusted figure, the table above would be as follows:

Table 3

Figures in £000s	Headline Social Housing Costs per Unit (CPU)	Mgt CPU	Service Charge CPU	Maintenance CPU	Major Repairs CPU	Other social housing CPU
Advance	11.04	2.25	1.69	1.59	0.19	5.32
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Look Ahead	20.92	3.18	2.46	0.61	0.27	14.41
St Mungos	25.19	7.55	3.30	0.46	1.98	11.90
Reside Housing	5.72	4.67	0.45	0.59	0.01	0.33

Another important consideration to bear in mind when examining management cost is the impact of scale of operations. Look Ahead reported turnover of £55.027m in 2015-16 which will have allowed it to achieve efficiencies of scale which will be more difficult for smaller providers such as Reside. Similarly St Mungos had turnover of £81.667m in the same period.

Service Charge CPU

Our service charges per unit are amongst the lowest in our peer group reflecting the fact that our service charge costs are housing related only.

Major Repairs CPU

As stated above, Reside leases most of its stock rather than owning its stock. With our leased stock we are not typically responsible for undertaking major repairs on the properties. Since Major Repairs CPU is calculated by taking all such expenditure and dividing it over all Reside's units, our spend is the lowest of our comparator group which is to be expected.

Other social housing CPU

Our other social housing costs per unit are the lowest in our peer group reflecting our housing focus.

3. Value for Money Achievements

The following value for money achievements were realised in 2016-17:

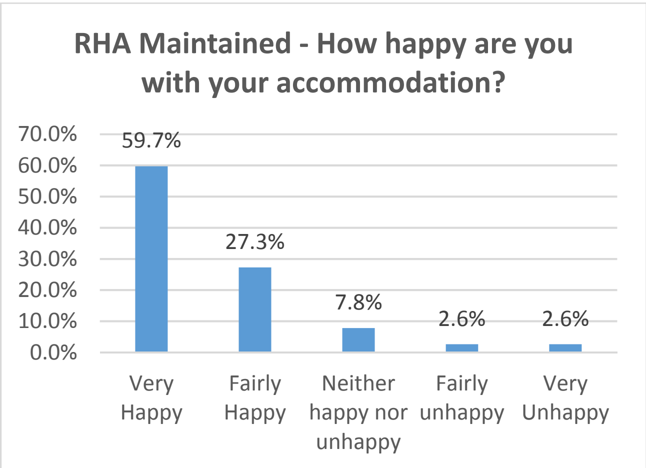
- Savings from principal IT contractor doing first line support onsite - £4k
- Savings from using reconditioned computer hardware - £1k
- VAT saving from employing additional in-house maintenance operatives - £9k
- Securing best available rate on utility costs - £26k
- Improvement in SLA from provider for gas safety and other checks
- Reviewed insurance arrangements based on 3 year agreement leading to savings - £4k

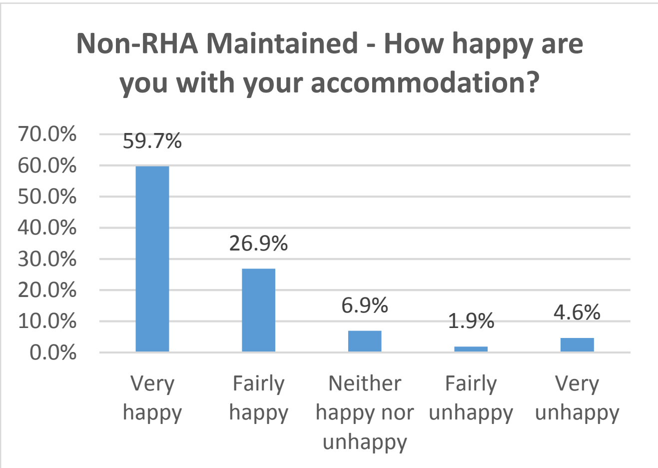
The following work was undertaken in 2016-17 which will realise efficiencies in 2017-18:

- Saving from purchasing new office rather than renting an equivalent over long term - £86k
- Negotiation of reduced bank loan arrangement fee (once-off) - £5k
- Negotiation of reduced interest rates on loan agreements - £7k
- Electronic Board/Committee software and hardware - £1k
- Planned introduction of eLearning for Health and Safety courses - £5k

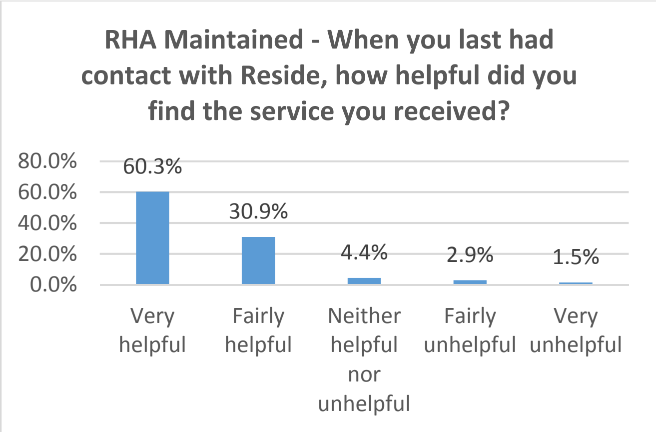
4. Customer Satisfaction

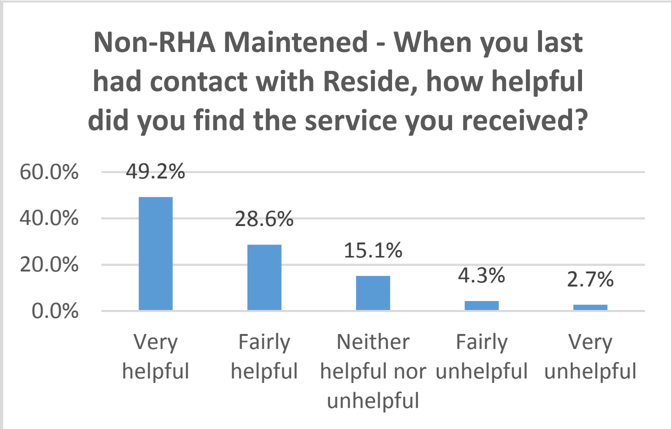
An annual tenant satisfaction is carried out. The results for properties maintained by Reside and those properties not maintained by Reside is separately analysed. The results of the last available survey are shown below.





Although the headline satisfaction results are very similar between RHA maintained properties and non-RHA maintained property, we see that tenants are more satisfied with the last customer contact when we are responsible for maintaining the properties.





Overall satisfaction ratings can be considered a measure of Reside's performance in delivering property maintenance services and in responding to tenants' needs. High overall satisfaction ratings directly convey tenants' positive experiences and correlates closely with delivery of efficient and timely services, whether reactive or planned maintenance.

The percentage of tenants expressing positive responses by either '*Very happy/ helpful*' or '*Fairly happy/ helpful*' replies, were indeed high. For example, with Reside-Maintained Accommodation 87% of tenants were *Very* or *Fairly* happy with their accommodation; and 91% of tenants were similarly satisfied with their last contact with Reside. Comparative percentages for non-Reside maintained properties are 86% being *Very* or *Fairly* satisfied with their accommodation and 78% being *Very* or *Fairly* satisfied with their last contact with Reside.

5. Asset VFM

Over this past year, we have increased the number of units from 974 at the end of 2015-16 to 1,155 at the end of 2016-17.

The following major refurbishments were undertaken:

- 3 bathroom/shower room replacements
- 2 kitchen replacements
- 6 fence replacements
- 2 boiler replacements

Extensive drainage remedial works were required on the Reeve Court site. Those works have now been successfully completed.

Work commenced on a programme of works to refurbish Hillside. This programme includes a replacement kitchen, bathrooms, new flooring and redecoration works. The works will continue into the next financial year.

In addition to the above, we carried out full decoration including replacement flooring at a range of properties.

6. VFM work going forward.

In addition to data available through the HCA Global Accounts, other benchmarking clubs exist. The main housing sector ones are: the Smaller Providers Benchmarking group (SPBM) and Housemark. Both have subscription fees but consideration will be given to the cost/benefit of joining one or more benchmarking clubs.

A consultation document proposing changes to the Vfm Standard by the HCA was issued in September 2017 and it signals a move away from narrative based reporting to more emphasis on scorecard based approaches. It also encourages greater alignment between value for money processes and an RP's own business planning framework. The target date for the implementation of the new standard is April 2018. Therefore, it will be important for us to understand how we can meet the requirements of the new proposed standard over coming months.