

Value for money

Self assessment statement 2015/16

VFM self assessment

1. Strategic overview

1.1 Role of Board

The Board has a strong commitment to delivering VFM, seeking an appropriate balance between cost, performance and quality and ultimately customer satisfaction. The Board considers VFM to be critical in achieving its strategic objectives, which are detailed in the recently approved corporate plan 2015 – 20.

The Board has a “hands on” role in developing the VFM strategy and reviewing the published self – assessment. It appraises VFM performance throughout the year and quarterly performance reports also reviewed throughout the year by the Board.

1.2 VFM Strategy and framework

The VFM strategy and framework incorporate planning and financial management (including zero based budgeting, delegated responsibility, monthly budget monitoring reports), performance management (including benchmarking), satisfaction surveys, tenant involvement in performance improvement and return on assets.

1.3 Review of VFM approach

At TRH Value for Money (VFM) is embedded in our day to day activities and we have adopted a dynamic approach to managing resources in order to direct investment into much needed new affordable homes.

In recognition of the new operating environment, especially the introduction of the -1% rent reduction for four years from April 2016, it has been necessary to adjust our VFM approach. Our new approach retains many of the original aspects such as cost control, and ensuring the focus is always on value of services for tenants measured through satisfaction ratings with our services. In order to ensure that savings continue to be achieved the following high level approaches have been put in place;

- We have reduced our headcount by three senior positions including a Director position resulting in annual savings of £182k;
- To deliver cost reductions of at least two percent across all major works contracts;
- Further other operational VFM savings spread across all budgets totalling £107k; and
- To reduce expenditure on major works by 6% spread over the life of the financial plan.

1.4 Key delivery areas in 2015/16

In 2015/16 the key areas for VFM delivery included;

- VFM savings of totalling £398k spread across the association;

- Enabled zero percent contractual cost increases across all contractors;
- In response to the rent decrease for four years from 2016/17 TRH implemented a further round of cost reductions and efficiencies that will come into effect from 2016/17. These adjustments are spread across all areas of the business including staffing costs, operation costs as well as repair costs. This will be picked up in detail as part of the forward look please see paragraph 4.1;
- Further refinement of our understanding of return on assets and enhancement of our NPV model through the use of a tool called stock profiler. This is picked up further under return on assets please see paragraph 2.9; and
- Further developed our new business offering including bringing further services in-house (including voids clearance and cleaning) as well as taking on more external new business contracts which in time will offer a real return to TRH.

1.5 Approval process

The 2015/16 VFM self assessment was approved by the Audit Committee on 14 July 2016 and was approved by the Board on 4 August 2016. It will be presented to the Homes and Communities Agency (HCA) as part of the regulatory requirement. It is publically available from the TRH website as follows:

https://www.tworivershousing.org.uk/custom-content/uploads/2016/07/Value_For_Money_Self_Assessment_2015_16.pdf

2 Assessment of performance in 2015/16

2.1 Our self – assessment illustrates how the embedding of VFM into our strategic and day to day work supports TRH's corporate themes, the needs of our stakeholders and the HCA VFM standards. It demonstrates how we are managing our resources and assets. Effective cost control has created strong financial performance in the form of operating margins and surpluses, which have been utilised to re-invest in new homes, improving existing stock and customer services and adding value to the communities in which TRH operates. It also highlights areas for improvement and how we are planning to improve. The assessment consists of the following elements:

- VFM performance targets
- Efficiency targets
- Operating cost efficiencies 2012-2016
- Benchmarking
- Performance and satisfaction
- Creating value through our assets
- Creating value through Treasury management
- Creating social value

2.2 VFM Performance Targets for 2015/16

The following high level set of targets is monitored over a period of time. Any significant variations prompt further investigation and improvement actions where

appropriate. The position for 2015/16, together with the results for 2011/12 to 2015/16, to show the direction of travel are summarised overleaf:

Table 1 VFM Performance targets for 2015/16

	2011/12 Actual £000s	2012/13 Actual £000s	2013/14 Actual £000s	2014/15 Actual £000s	2015/16 Budget £000s	2015/16 Actual £000s	2015/16 Variance £000s
Operating Margin							
Operating Surplus	4,759	5,455	5,126	5,297	4,772	6,006	-1,234
Operating Margin	28.62%	30.67%	26.44%	25.63%	22.73%	28.76%	-6%
Operating Costs Per Property per week							
Operating Costs Per Property per week	62	62	70	75	83	76	-7
Operating Costs as a % of turnover	71%	68%	70%	71%	77%	71%	-6%
Employee targets							
Properties per employee	30.4	29.8	31.1	31.4	28.8	31.3	-2
Turnover per employee	136,303	142,272	161,575	172,200	159,053	172,579	-13,525

VFM Performance targets for 2015/16 (cont/...)

	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Budget	2015/16 Actual	2015/16 Variance
Responsive Repairs							
Number of repairs per property	3.6	3.5	3.7	3.7	3.7	3.8	0.1
Average cost per repair	120	118	112	131	131	127	-3
Average cost per property	427.75	418.98	418.03	480.28	476.49	485.54	9.05
Void Repairs							
Average Cost per void	1,779	1,981	2,007	2,665	2,365	2,176	-189
Voids during year as a percentage of stock	10.03%	9.76%	10.78%	8.19%	8.95%	8.04%	-0.9%

Operating Margin

Operating surplus and margin significantly exceeded target for 2015/16, which is attributable to operating costs for many budget headings being lower than budget. Two large contributors were maintenance costs and staff costs. In relation to maintenance some of which have been deferred to the following year. The other significant area related to staff costs was a reduction following the removal of a Director position and two other key posts following a decision taken by the Board after the rent reduction announcements.

Operating costs

Operating costs per property show an improvement on the previous year which is linked to the comments outlined above. Operating costs as a percentage of turnover has remained fairly stable over the years which is a good indication of overall cost control.

Responsive repairs

The average cost per repair has reduced by £3 per property compared with the previous year, but the overall spend per property has increased by £5 compared to the previous year. TRH has had a drive to reduce repair costs by procuring a new more cost effective fleet of vehicles, working with our material supplier to reduce costs and bringing in-house services such as drain jetting. It is anticipated that the full effect of these changes will come into effect in 2016/17.

Void repair costs

The actual void repair cost per property has been reduced significantly from the previous year as a result of a major exercise to reduce costs. The void turnaround has also reduced significantly resulting in a lower void loss. Voids as a percentage of stock in the year is also less than budget, which is a further move in the right direction.

2.3 Efficiency Targets for 2015/16

2.3.1 Summary

Efficiency area	Target	Actual
Operations	£98,254	£133,813
Development	£50,000	£57,189
Planned maintenance and contract management	£308,361	£206,636

2.3.2 Operational efficiency savings

Some of the main efficiency savings achieved in the operations area were as follows:

- Improvement in material procurement arrangements resulted in savings of £68,000.
- Bringing the drain clearance process in-house resulted in savings of £22,000.
- By carrying out health and safety training in-house as well as selling training externally resulted in savings of £13,214.
- Moving postage costs across to emails resulted in savings of £6k.

2.3.3 Development Savings

The majority of the savings flowing from development resulted from value engineering savings from development projects, leading to real reductions in costs with no reduction in quality.

2.3.4 Planned maintenance and contract management

VFM savings in planned maintenance have come from a variety of different sources. Some of the significant savings are highlighted below:

- Procurement of kitchen and bathroom materials through the Central Housing Investment Consortium (CHIC) (a purchasing consortium of which TRH is a founder member) resulting in lower costs of £13k.
- An open book review of a kitchen, bathroom and electrical review resulted in savings of £18k.

- Reduced contractor management costs on external works contract following open book review £13k.
- Economies in relation to scaffolding costs £18k.
- Negotiation of gas boiler rates in line with CHIC rates £20k.
- Carrying out construction design and management (CDM) contracts in-house £15k.
- Graduate surveying role in relation to energy performance certificates (EPC) contract £30k.

2.3.5 Reinvestment of efficiency savings

The savings achieved from the above activities have been consolidated within the overall financial plan, and have resulted in lower than anticipated levels of loan draw-down. This has in turn freed up greater capacity to reinvest in new development than would otherwise have been achieved.

2.4 Operating cost efficiencies for 2011/12 to 2015/16

2.4.1 Whilst the above information suggests generally impressive cost performance, TRH also annually assesses cost effectiveness by reviewing the operating cost efficiency savings and increases per unit in real terms. For these purposes the period under review is from 2011/12 to 2015/16.

2.4.2 Basis of Comparison

A number of costs, including capital costs, interest costs, void costs, bad debts, depreciation and first tranche shared ownership cost of sales were excluded from the analysis because they are different in nature from the majority of TRH's on-going operating costs.

2.4.3 Results

Operating cost efficiencies 2011/12 to 2015/16

	2011/12	2012/13	2013/14	2014/15	2015/16
Cost per unit	1,100	1,075	1,060	1,128	996

The above figures have been adjusted for inflation to make them comparable, and have been restated at 2010/11 price basis. The analysis shows there has been a real reduction in operating costs in 2015/16 which largely links in with the commentary under operating costs above in that there has been a reduction in planned maintenance costs in 2015/16 which accounts for the majority of the reduction.

2.4.4 Delivery of Cost Efficiencies

Cost control, reducing waste and improving procurement processes have been fundamental to our cost efficiency delivery, enabling reinvestment in services and further development.

Measures implemented to deliver efficiencies included the empowerment of staff to challenge inefficiency, which has led to initiatives such as carrying out works internally where possible such as health and safety training, fire assessment reviews and recruitment advertising. A further key principle has been negotiating less than inflation increases with key suppliers. A further approach has been to use electronic documents, where possible, thus saving on printing and postage costs.

2.4.5 Challenges ahead – further cost efficiencies

While TRH has effective cost control mechanisms in place and has consistently achieved cost efficiencies, it is essential that it continues to review cost structures, particularly in the context of a very challenging operating environment. The Chancellor's budget incorporated a number of provisions, including a 1% rent reduction for each of the next four years' commencing 2016/17, and welfare reforms such as reductions to the benefits cap and reductions in housing benefit for 18-21 year olds. This is in addition to the most significant reform of Universal Credit, for which the true extent of the impact for TRH will not become evident until its wider roll out in 2017.

The financial plan was revised and approved on 15 September 2015 following the approval of the mitigation strategy. These actions were a prompt response to and aimed at dealing with the adverse implications resulting from the reductions in rental streams flowing from the new policies.

A number of actions were taken including the following:

- Removal of the extra care scheme proposal and the addition of the Cottesway stock acquisition, the combination of which showed a slight improvement in the overall plan position.
- Review of stock condition assumptions resulting in a 6.61% reduction or £15m from the total spend of £227m over the 30 year financial plan. These were enabled through:
 - Reduction in kitchen prices through CHIC of 5%;
 - Value engineering rewiring projects resulting in 10% reduction in costs;
 - Extending composite and main door lifecycle assumption from 20 to 30 years which was supported via condition examination to date; and
 - Reduction in the cost of responsive repairs through the removal of temporary staff and the introduction of a new fleet at lower costs.

It is not intended that any of the above changes will have an impact on customer satisfaction, nor detract from the quality of the stock or continuing to meet the decent homes standard over the course of the plan.

- Removal of a Director position, a personal assistant position and a data co-ordinator role resulting in savings of £182k per annum.
- Further operational reductions in budgets of £150k per annum.

- 2.5 Benchmarking to HCA Global accounts 2015
- 2.5.1 Our need to continuously improve dictates that we compare our performance with that of our peers. We have therefore compared our financial performance against the 2015 Global accounts.
- 2.5.2 TRH's performance is compared with that of the large scale voluntary transfer (LSVT) social housing sub-sector of 162 providers, as well as traditional associations totalling 166 as measured by a number of high level financial indicators contained within the Global accounts.

Table 2 : 2014/15 Global accounts comparisons

	TRH 2015	HCA Tradition al 2015	HCA LSVT 2015	All 2015	TRH 2014	HCA Traditio nal 2014	HCA LSVT 2014	All 2014
Growth in turnover	6.5%	3.5%	5.0%	4.1%	9.1%	5.7%	4.3%	5.2%
Operating margin	25.6%	27.9%	28.8%	28.3%	26.5%	26.1%	27.2%	26.5%
Management cost per unit	£ 1,170	£ 1,082	£ 972	£ 1,034	£1,109	£ 1,040	£ 939	£ 996
Routine and planned maintenance costs per unit	£ 1,480	£ 1,016	£ 1,018	£ 1,017	£1,436	£ 1,007	£1,039	£1,021
Capitalised major improvement costs per unit	£ 980	£ 767	£ 1,138	£ 927	£ 994	£ 712	£1,183	£ 918
Total maintenance costs per unit	£ 2,460	£ 1,783	£ 2,156	£ 1,944	£2,430	£ 1,719	£2,222	£1,939
Total management and maintenance costs per unit	£ 3,830	£ 4,733	£ 3,684	£ 4,221	Not ava	Not avai	Not ava	Not ava
Current tenant arrears	1.7%	4.9%	4.2%	4.6%	1.8%	4.9%	4.2%	4.6%
rent loss due to void s as a percentage of rent due	0.9%	1.8%	1.6%	1.7%	1.6%	1.8%	1.6%	1.7%
arrears written off as a percentage of rent due	1.1%	0.8%	0.8%	0.8%	1.1%	1.0%	1.0%	1.0%

Table 3 : 2014/15 Global accounts comparisons

2014/15 Accounts	Closing Units	Social housing	Management CPU	Service Charges	Maint CPU	Maj Rep CPU	Other Social Housing
Two Rivers Housing	3858	3.83	1.17	0.2	1.48	0.98	0
Sector Average		4.22	1.05	0.58	1.00	0.93	0.67
Traditional Average		4.73	1.12	0.82	0.97	0.73	1.10
LSVT Average		3.68	0.97	0.32	1.04	1.14	0.21

It is important to recognise when reviewing the above results that we are not necessarily comparing like with like. For example, different associations take different approaches to the treatment of management costs. Some associations include all of their management costs with the management cost heading within the accounts, and others apportion some of these costs across repair costs. The total cost per unit overall does however offer a like-for-like comparison in absolute terms.

There are, however, some basic conclusions which can be drawn from the above as follows:

- TRH's growth in turnover has been above sector averages. There have been two contributory factors, namely, new development units and the impact of rent harmonisation as TRH was still trying to increase its rents in line with the Government formula allowance. However it is important to note that in the future the harmonisation increases will no longer apply so future increases will be totally

dependant on new development. Also, given the negative rent increases, the whole sector increases will be suppressed or even negative overall.

- TRH's operating margin is just less than the sector average, but this is largely as a result of higher than average maintenance costs. In general terms TRH maintains its properties to higher standard specifications than other associations which contributes the overall higher spend level. This is a deliberate decision by the Board to assist with customer satisfaction. This standard has been reviewed following the impact of the rent decreases which, in time, will reduce the spend on repair costs.
- Our management costs per units are slightly higher than the sector averages of both traditional and LSVTs. However as mentioned earlier it is not known what level of management costs other associations are apportioning across maintenance costs. A further influencing factor is the fact that TRH is smaller than the average association sizes in both the comparator groups. The absolute spend on management costs is low for TRH in comparison to others which does suggest that it is a factor of size.
- TRH's routine repair costs are high compared to other associations, which is something that the association is aware of and is working hard to reduce. It is anticipated that these costs will fall in future years.
- In the current climate of welfare reform it is good to see that TRH's arrears and rent loss due to voids as a percentage of rent due look very competitive compared to other sectors which should stand the association in good stead as we enter further cuts and reductions as Universal Credit is implemented.
- TRH is aware that historically the level of rent write-off has been slightly higher than the sector average which is why a new dedicated position has been set-up to try and reduce this level of cost in the future. We will be monitoring this change closely to ensure that good VFM is achieved.

2.6 Housemark Benchmarking

2.6.1 The peer group used for this Housemark benchmarking process is for those LSVTs within the southern benchmark group, from approximately 3,000 to 10,000 units (21 LSVT associations in total) with an average of approximately 6,000 units.

2.6.2 Housemark VFM Scorecard

2.6.3 Benchmarking results are not available from 2015/16. The Housemark 2014/15 Scorecard overleaf illustrates the results for a variety of indicators



Value for money scorecard



Process	Value	Previous	Trend	Median	KPI
Rent collected from current and former tenants as % rent due (excl. arrears b/f)	99.3%	99.2%	★	99.4%	🟡
Average re-let time (standard re-lets)	20.00	29.95	★	22.41	🟡
Repairs completed at the first visit %	88.4%	93.0%	🔴	93.4%	🟡
Service charges collected as % service charges due (excl. arrears b/f)	NoData	NoData	●	100.9%	●

People	Value	Previous	Trend	Median	KPI
Staff turnover in the year %	22.5%	10.8%	🔴	18.6%	🔴
Sickness absence average days/shifts lost per employee	6.2	5.3	○	9.0	★
Staff satisfied with organisation as an employer %	82.0%	81.0%	🟡	81.5%	🟡

Value	Value	Previous	Trend	Median	KPI
Satisfaction with quality of new home %	97.0%	98.0%	🟡	94.0%	🟡
Satisfaction with service provided %	87.9%	84.1%	★	87.0%	🟡
Satisfaction with repairs & maintenance %	77.3%	74.1%	★	80.3%	🔴
Satisfaction with neighbourhood %	92.3%	94.4%	🔴	87.0%	★
Satisfaction rent provides value for money %	87.3%	83.1%	★	84.3%	★
Satisfaction service charges provide value for money %	73.9%	71.9%	★	68.3%	🟡

Business & Financial	Value	Previous	Trend	Median	KPI
Total CPP of Housing Management	£372.34	£346.79	↑	£449.50	↓
Total CPP of Responsive Repairs & Void Works	£1,065.19	£984.51	↑	£791.39	↑
Total CPP of Major Works & Cyclical Maintenance	£1,757.08	£1,902.29	↓	£1,544.59	↗
Total overhead costs as % adjusted turnover	14.2%	13.3%	↑	10.7%	↑
Current tenant arrears as % rent due (excluding voids)	1.77%	2.07%	★	2.54%	★
Rent loss due to voids as % rent due	0.83%	1.71%	★	0.74%	🟡
Gross arrears written off as % rent due	0.82%	0.51%	🔴	0.32%	🟡
Growth in turnover	6.5%	9.1%	🔴	6.3%	🟡
Operating margin	25.6%	26.5%	🔴	31.9%	🔴

Trend Indicators

This represents your improvement in comparison to your peer groups's improvement.

Performance Indicators

These represent your performance in comparison to your peer group's performance.

Trend

This represents your improvement in comparison to your peer groups's improvement.

KPI

This shows how your actual performance or cost compares with your peer group

2.6.4 Analysis of Housemark Results

Whilst the overall performance remains generally favourable, it is necessary to analyse the results in more detail as overall positive performance can obscure less positive performance in specific areas. The main highlights are summarised as follows:

2.6.5 Growth in Turnover and operating margin

Our growth in turnover is above average and has resulted through additional development and continuing to pursue our rent harmonisation policy. However, since the 2014/15 report, there has been a change of Government policy which has halted TRH's ability to harmonise rents which will result in a slower rate of growth from 2015/16 onwards. The operating margin is below the median for the group, but over the next two years it is anticipated that it will strengthen.

2.6.6 Overall Housing Management TCPP

Operational area	2014/15	Quartile	2013/14	Quartile
Rent arrear TCPP	115.65	upper	109.00	upper
Tenancy Management TCPP	98.15	Upper middle	82.69	upper
Resident involvement TCPP	56.6	Upper middle	68.91	Upper middle
Lettings TCPP	54.01	Upper middle	54.79	Upper middle
ASB TCPP	47.93	Upper middle	31.40	upper
Total Housing management TCPP	372.34	upper	346.79	upper

- 2.6.7 The overall housing management performance remains upper quartile. There was a significant investment in rent arrears collection through employing debt and welfare advisors to assist with the process. This has paid dividend by enabling excellent quartile 1 arrears collection performance.
- 2.6.8 Tenancy management costs are upper middle quartile with satisfaction with the neighbourhood remaining as top quartile.
- 2.6.9 Lettings costs remain at upper middle quartile with performance improving significantly in 2015/15 reducing void turnaround by 10 days, jumping from quartile 4 to quartile 2 performance, which has been achieved through systems improvements.
- 2.6.10 Major works and cyclical maintenance total cost per property (TCPP) and decent homes standard.
Decent homes standard non decent is 0% which is top quartile, and gas servicing is 100% which is also top quartile. The average spend on major repairs is higher than the sector average, although there has been a reduction from the previous year.
- 2.6.11 Responsive repairs and voids and responsive repairs TCPP
TRH is significantly more expensive than the sector median. Considerable work has been carried out in this area to try and improve the cost effectiveness of the service since 2014/15, for example, in relation to the cost of materials, stopping the employment of temporary staff and reducing the cost of lease vehicles. The average time to complete a repair had improved significantly going from Q4 to Q2 which showed TRH was recognised as the second best improver within the peer group for 2014/15.
- 2.6.12 Void repair average costs remained high in 2014/15 at Q3 with costs at £2,429.42 and £2,549.8 in 2013/14 and 2014/15 respectively. It is encouraging to note that the cost per void in 2015/16 has reduced to £2,109.

- 2.6.13 Estate services of £98.10 places us second in our benchmark group in terms of cost, and we also get very good satisfaction results from our tenants in relation to the performance of the grass cutting service. This service has been brought in-house and is provided to TRH through our subsidiary Centigen. It is heartening to see that it is offering very good VFM.
- 2.6.14 Overheads as a percentage of adjusted turnover
TRH overheads costs as a percentage of turnover are high. However absolute overhead costs are below median when compared to the peer group (quartile 2) which indicates that the adverse comparison is as a result of TRH's smaller size compared to its peers. Notwithstanding this we are always looking at ways of making the association more efficient. For example, by reducing down from three Directors to two and reducing some other positions since 2014/15.
- 2.6.15 Overall satisfaction with TRH staff satisfaction and sickness performance is very good. This places TRH in the second and first quartile respectively. Our staff turnover in 2014/15 was disproportionately high due the rationalisation of a number of very small employment contracts. The normal level of turnover for TRH is around 10% which is also top quartile.

2.7 Performance and satisfaction

In summary cost efficiencies have been achieved in conjunction with generally high levels of performance and satisfaction.

2.7.1 Performance

Performance across the business is measured by a comprehensive suite of monthly key performance indicators (KPIs). A quarterly Board performance pack is produced, which gives the Board a high level overview in relation to the achievement of corporate objectives, financial performance, a development update as well as a high level risk update. Apart from a few areas where targets have not been achieved performance during the year has been of a high standard.

2.7.2 Satisfaction

Overall satisfaction is measured using independent surveys and achieved a level of 88% in 2014/15, which placed TRH in the second quartile. Satisfaction with repairs and maintenance is below median at quartile 3 and is an area that TRH has been working on over the last year to improve. Satisfaction with the neighbourhood, VFM and service charges all show very good levels.

2.7.3 Staff

Motivated and engaged staff who are, in essence, TRH's most valuable resource, are fundamental to providing an excellent service. Accordingly TRH has invested in both employee specific training and company wide

training for managers and staff. As a consequence of participating in the Times 100 best not for profit organisations, TRH has improved its understanding of the factors that drive staff satisfaction and the crucial role it has in driving service improvements and customer satisfaction. In last year's survey TRH improved its position to 46 in the list and is working to try and further improve the position in next year's survey.

2.8 Creating value through our assets

2.8.1 Strategic context

TRH recognises the significance of its asset base for the health and financial sustainability of the business. Proactive asset management can contribute considerably to the financial capacity and success in delivering the Board's priorities such as increasing customer satisfaction and providing more homes.

2.9 Our Assets

2.9.1 Assets and values

The valuation as at 31.12.15 was as follows:

- Existing use value of total stock £160,574,500 (previously £149.8m as at 31.3.15 based on a survey carried out at 31.3.2013).
- Existing use value of charged stock £138,801,000. The charged valuation offers adequate cover as security against our projected borrowings with capacity for further borrowing in the future.

2.9.2 Assets and charging

This year a major exercise has been carried out in order to transfer the holding of all security details to the Prudential as an independent trustee. This has had three main benefits for TRH;

- The exercise has involved a major review of all details in relation to charged and uncharged stock to ensure that all records are fully up to date and in a condition that would be acceptable to a potential future funder.
- The exercise has also put the association in a stronger position to deal with a crisis in the event of a financially difficult position, or in the event of a third party needing to raise funds rapidly. This also strongly supports the HCA assets and liability register requirements.
- As part of the process, at the time of writing, we are in the final stages of negotiating the release of further assets from charge. This will enable TRH to consider other alternative funders for new funding in the future and will ensure that TRH gets the best possible value from any borrowing that may be required.

2.9.3 Assets and strategic management

In 2011/12 TRH developed a net present value (NPV) tool to determine the financial value of housing assets. This has in turn been used to inform the disposal process which formed part of the funding necessary to enable the HCA development programme. The model was used to evaluate properties

as they became void to determine whether they were suitable for sale or not. Only properties that were performing at below average in NPV terms were considered. Over the following two years this approach was used to dispose of 47 properties resulting in a capital receipt of just over £5m. This model continued to be used into 2014/15 to inform the disposal decisions in relation to the current development programme where a further 17 properties were disposed of with a net receipt of £2.3m.

Since the original model was created, further steps have been taken to set-up a more sophisticated model which is able to be used in a more dynamic way to inform not just the planned disposal process, but also the asset management and rationalisation process as part of TRH processes.

2.9.4 Key return on asset information

Some key facts in relation to how TRH stock is performing is outlined below;

Key facts on the current asset performance:

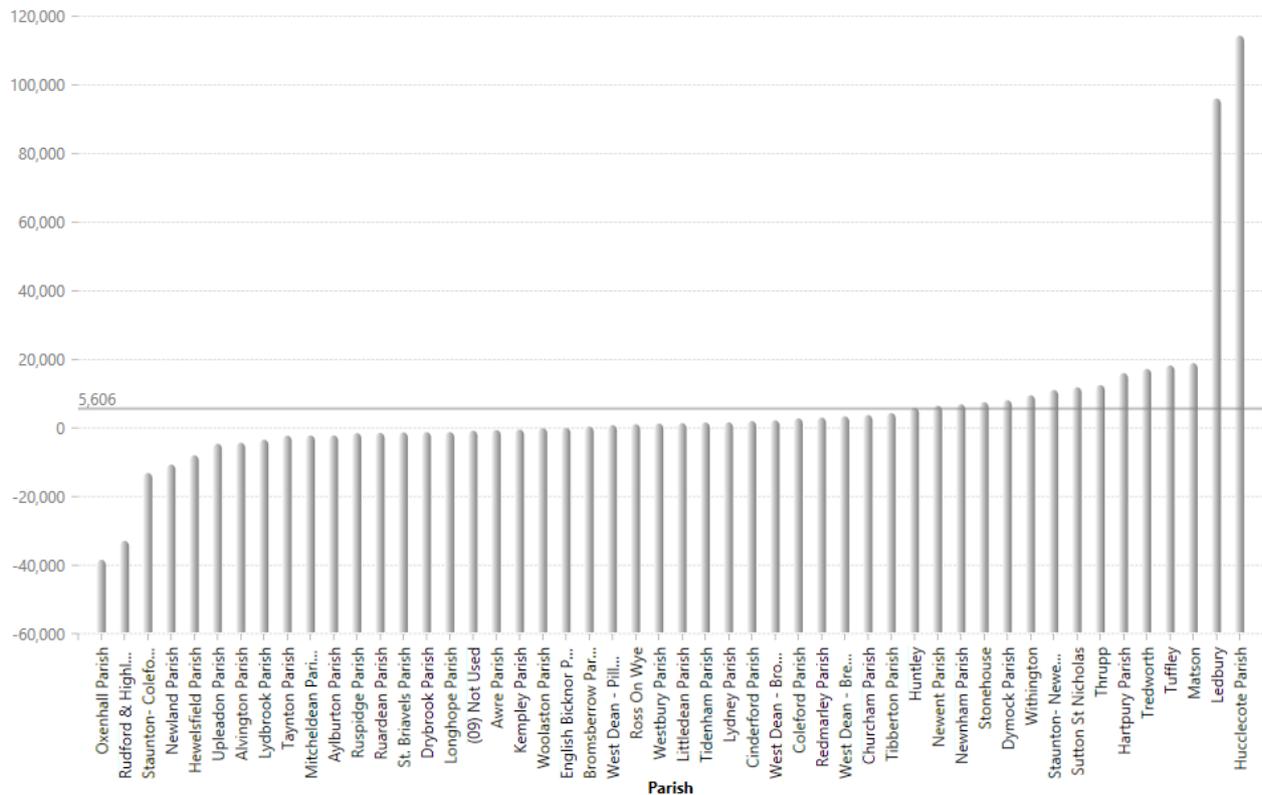
- The average NPV of the current rent across all of TRH's stock is +£3,574.
- 1188 assets have a negative NPV, with the average NPV being -£7,793.
- 2579 assets have a positive NPV, with the average NPV being £8,628.
- The average NPV as a % of OMV (open market value) is currently at +3% across the whole stock.

NPV of Current Rent	No of properties	Avg NPV
Top 5% of assets	169	+£30,276.18
Bottom 5% of assets	190	-£23,655.22

NPV of Current Rent	Avg NPV of Current Rent	Avg NPV as % of OMV	Avg value of market value less NPV	Avg Age of Stock	Avg No of Contacts
Top 10 Assets	+£133,470	95.1%	+£11,767	6 yrs	28 per unit
Bottom 10 Assets	-£61,715.91	-39.2%	-£225,389.71	68 yrs	98 per unit

An analysis of open market value (OMV) price less NPV performance by Parish is shown in the following graph;

NPV of Current Net Rent

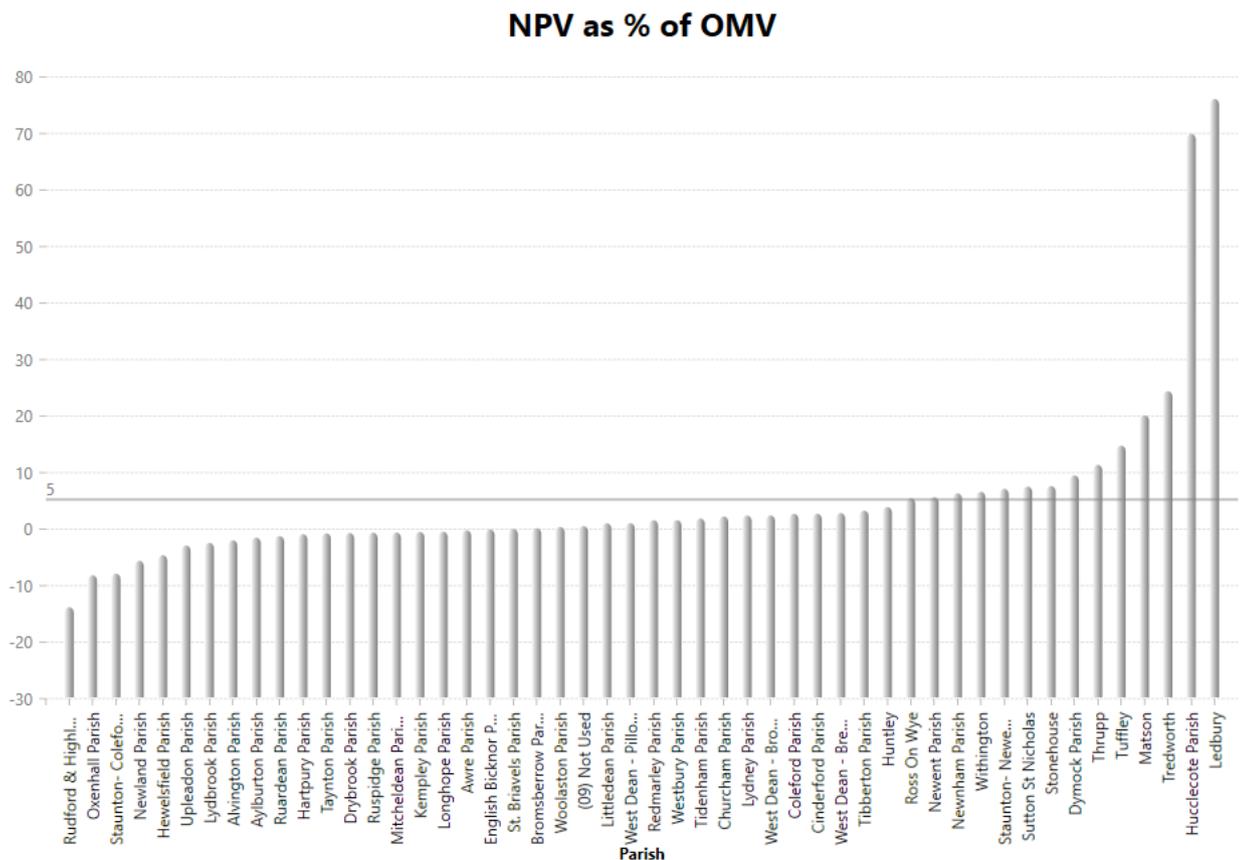


The graph highlights the NPV of stock via location and shows areas where collectively the stock NPV's are high or low with the majority being around the mid point. Information of this type helps when reviewing the stock condition maintenance plans as well as understanding potential impacts of any asset disposals.

Research into how other organisations appraise performance of assets has shown that a Dutch model uses an approach which compares the NPV as a percentage of the market value, rather than using the absolute difference between market value and NPV which is what TRH has historically used.

Having compared our previously used approach sale receipt less NPV to Dutch approach of NPV as a percentage of market value, TRH is to recommend to the Board that the Dutch model be adopted as it maximises the overall financial performance of TRH's assets in the longer term.

The following graph illustrates the results obtained by Parish showing NPV as a percentage of OMV;



It can be seen that the approach has yielded slightly different results in terms of the Parish order when compared to the previous graph showing open market value less NPV.

Mindful of the relative performance of new stock compared to old stock, it is intended that an ongoing small annual disposal programme generating a capital receipt of £1.4m p.a. will be used, and the net proceeds re-invested to subsidise new social housing development replacing assets disposed of in a ratio of 2 to 1 basis. Assets to be sold will be identified through the voids process.

Clearly the combined effect of reducing the numbers of worst performing assets and replacing with new high performing ones will have the effect of improving the overall performance of the stock. Once a track record of the impact of these changes on the overall performance of the stock has been obtained, targets of improvement for the future will be set which will be expressed in terms of the overall NPV as a percentage of market sales price. In the interim the target will be linked to a capital receipt for re-investment in development. Development identified in this way will be in addition to existing planned development. It is anticipated that approximately 12 sales per annum will take place with 22 new properties being developed.

2.10 Creating Value through Treasury Management

The associations Treasury Management Policy contains a commitment to the management of interest rate exposure while ensuring the achievement of the best possible cost of capital. The table below shows the financial plan targets and actual performance for 2015/16:

Activities	2015/16 target	2015/16 actual	Target achieved
Maximum debt level	£75,909k	£73,600k	Yes
Net debt per unit	£21,040	£19,270	Yes
Loan interest	£3,783k	£3,577k	Yes
Weighted average interest rate	4.8%	4.8%	Yes

As can be seen from the above table TRH has delivered within its targets originally set in the board approved financial plan. The reason the peak debt and debt per unit being under the maximum / expected target was due to delays in completing the development programme.

The treasury management function has provided value in the support for the associations stated objectives during 2015/16 in respect of;

- Provision of new housing – 39 new homes were completed during the year;
- Home improvements carried out in relation to 800 homes during the year in support of maintaining the decent homes plus standard; and
- A further £40m is available for building additional homes.

2.11 Creating social value

Adding social value remains integral to TRH's wider community role. In addition while recognising the need and importance of making cost savings, the revised financial plan continues to support TRH's role in the community. Specifically areas where TRH contributes social value are;

2.11.1 Welfare reform

In order to protect its future income streams, and to assist tenants during what are becoming increasingly difficult times financially, TRH employs the services of two debt and welfare advisors. During the year the advisors carried out 673 visits and dealt with 351 cases resulting in the claiming of additional benefit totalling £642k that would not otherwise have been claimed. Clearly this will have significantly increased the quality of lives of the people affected.

2.11.2 Procurement - employment and training

The setting up of our new businesses CentigenTRH and CentigenFM including the estate agency Twocan has resulted in the employment of 24 new members of staff all of whom live locally within the community. We also have contractual obligations with key maintenance contractors to offer trainee and apprentice roles (three new positions) as well as a number of

work placement opportunities. TRH also has a policy of employing people into apprentice roles; currently there are seven apprentices employed.

2.11.3 Energy saving initiatives

TRH has run a number of initiatives aimed at saving tenants money in relation to energy bills. These vary from running detailed case studies with selected tenants over an extended period increasing energy cost awareness and management to running local training courses, as well as providing energy saving materials. TRH has also trained a number of staff as energy champions so that they can assist tenants with energy management issues. TRH has also used the Housing Associations Charitable Trust (HACT) model to evaluate the social return in relation to number of social projects and intends to continue developing its use in the years to come.

2.11.4 Community engagement work

TRH has organised a number of engagement activities during the year which have involved all TRH staff contributing to engagement work. This work has included projects such as children play area reclamations, refurbishing of community school facilities, and assisting setting-up a dementia café. Staff from all areas within TRH have spent time working on projects in the community

3 **Conclusions on VFM performance in 2015/16**

3.1 The VFM self assessment demonstrates positive performance as demonstrated by cost efficiencies achieved, performance as internally monitored through KPI's, benchmarking of financial performance against the HCA global accounts and comparison of service costs and performance via the Housemark benchmarking service. TRH has a highly engaged workforce which is committed to delivering customer satisfaction and VFM.

3.2 Areas for further review and potential improvement include;

- The high cost of the responsive repairs service has been subject to review in 2015/16 and will continue to be scrutinised in 2016/17 with further plans for cost reductions.
- The integration of dynamic asset management into our day to day operations to maximise the return on assets is additional area of focus.

4. **Plans for 2016/17 and beyond**

4.1 A robust financial performance together with an embedded approach to VFM provides a strong foundation for achieving VFM improvements in support of our strategic plans in the context of a very challenging operating environment. However if these challenges are to be successfully overcome, there are areas for improvement.

4.2

The main plans for 2016/17 are:

- Reduction in stock condition expenditure by 6.6% while ensuring the achievement of decent homes standards as well as customer satisfaction;
- Careful consideration of future development opportunities to ensure that proposals are affordable;
- Implementation of £150k of operational budget savings;
- Further review of the treasury strategy to see if further savings are achievable;
- Implement further VFM savings of £107k for operational costs;
- Further review the cost of delivering the responsive repairs function;
- Ensure the reinvestment of a capital receipt of £1.4m from the sale of our worst performing void assets to provide new development properties on a 2 for 1 basis;
- Continue with the comprehensive welfare mitigation strategy;
- To further develop Centigen services which will, in time, offer a return to TRH, as well as enabling further local employment. In particular this will involve further insourcing of currently contracted out services; and
- Embedding the SDS asset management stock profiling system into day-to-day operations.

5 The Board's assurance of the VFM assessment

5.1 Much of the information within this self assessment has been reviewed, and assurance gained on 2015/16 performance, via the presentation of separate reports to Board, and the Audit Committee throughout 2015/16. This has culminated in this VFM self assessment which has been reviewed by the Audit Committee and Board.

5.2 If there is anything in relation to the VFM self assessment which you do not understand, or if you would like to discuss the contents, please do not hesitate to contact the author.

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