Value for Money Statement

2016/17

"We're continuing to provide safe, warm and affordable homes to a decent standard for people who are homeless or in housing need."

What is Value for Money?

For SHAL, value for money means delivering our purpose as efficiently, economically and effectively as possible. Our purpose is to provide safe, warm, affordable homes to a decent standard for people who are homeless or in housing need.

Why is Value for Money important to us?

Our Regulator, the Homes and Communities Agency (HCA), requires us to publish a Value for Money Self-Assessment every September. SHAL's board are volunteers, paid only reasonable expenses for the work they do, and are clear that we have to make every penny count in the way we maintain and manage our existing homes and provide new homes. We know our tenants have 5 priorities, shared by us, which are to:

- Build new homes
- Invest in our homes
- Help tenants manage their money
- Help tenants who are struggling
- Tackle antisocial behaviour

"SHAL's board are clear that we have to make every penny count."

We know our tenants well and are very aware too many are struggling to cope with welfare reform, especially the introduction of Universal Credit, and the cuts to public services such as adult and children's services. As a business we have had to ensure that we are able to meet the challenges of 1% rent reductions from 2016-2020, reduced grant to build new homes and the future introduction of the Voluntary Right to Buy.

This means that it is now even more important that we show cash savings so that we can continue to build and manage homes for rent for people who are homeless or in housing need and who, sometimes, need help in managing their homes and their finances.

What does the Value for Money Standard 2012 require SHAL to demonstrate?

- Understanding of the return on our assets measured against our organisational objectives
- Absolute and comparative costs of specific service delivery
- Evidence of value for money gains and how these have and will be realised over time

What does the Board consider when assessing if we are delivering Value for Money?

- Where income comes from i.e. income from tenants, government and other sources
- Where we spend our income and what our costs are
- Where we can reduce costs
- How we can improve the quality of our services and our homes
- How we compare with other housing associations across the South West and across the housing association sector as a whole

What did our Board challenge us to do in 2016/17?

- Decrease operating costs by 5%
- Build or acquire 15 new homes, increasing our rental income by 2% in 2018
- Improve efficiency in back office services including reducing the cost of borrowing by 1%, reducing the number of homes used to secure loans and fixing employer contributions to our pension scheme
- Enable 24/7 service access via our website for tenants to pay rent, check their rent accounts and report repairs
- Develop a digital gas servicing system and ensure 100% servicing of all our occupied homes
- Improve value generation in property investment – deliver our investment programme within the year and within the budget of £819 per property with 20% delivered by the in-house team
- Improve productivity in our maintenance service – by using the technology we have bought to understand how we can remove barriers to productivity with the aim of improving jobs per operative

by 20%; reduce the costs of managing the maintenance service by 10%, and deliver 50% of vacant property works in house by the end of the financial year

- Improve void turnaround and standards at reduced cost – measure tenant satisfaction with homes we let and improve the standard of the homes we offer to new tenants within a budget per home of £3,900 and reduce the void turnaround time by 50% by the end of the year

Did we rise to the challenge in 2016/17?

"We have reduced the cost of borrowing by 1% and reduced the number of homes used to secure loans by 100%."

✗ • Decrease operating costs by 5%
  - Due to unforeseen levels of long-term sickness, staff turnover and an active decision taken by the board to increase the void standard during the year, a reduction of 1.5% was achieved.

✓ • Build or acquire 15 new homes, increasing our rental income by 2% in 2018
  - We exchanged on 16 homes which will increase our current level of rental income by over 2.5% in 2018.

✓ • Improve efficiency in back office services
  - We have reduced the cost of borrowing by 1%, increased the number of homes which are free of a charge to secure loans by 100% and fixed employer contributions at 10% in our defined contribution pension scheme for employees who were, prior to buy out, members of the LGPS

✓ • Deliver 24/7 access via our website for tenants to pay rent, check their rent accounts and order and track repairs
  - 'MyTenancy' was introduced in December 2016 enabling tenants to access their rent accounts and report a repair online, 24 hours a day, 7 days a week. 'MyTenancy' was accessed over 300 times by tenants self-serving in the first 4 months which made over 4 days of time available to refocus resources on tenants that may need that little more help and advice

✓ • Introduce a digital gas servicing management system and ensure 100% servicing of all our occupied homes
  - The system was introduced in 2016 and we serviced 100% of all of our occupied homes

"We delivered 59% of our Property Investment Programme in 4 months, 25% of which was delivered in house."

✗ • Improve value generation in property investment – deliver our investment programme within the year and within the budget of £819 per property with 20% delivered by the in-house team
  - Whilst we were unable to deliver the whole investment programme within the year, due to the uncertainty around the pension buy out, we delivered 59% of the program in 4 months, 25% of which was delivered in house

✓ • Improve productivity in our maintenance service – by using the technology we have bought to understand how we can remove barriers to productivity with the aim of improving jobs per operative by 20%; reduce the costs of managing the maintenance service by 10%, and deliver 50% of vacant property works in house by the end of the financial year
  - We have improved jobs per operative by 21%; reduced the costs of managing the maintenance service by 31%, and delivered 64% of vacant property works in house

✓ • Improve void turnaround and standards at reduced cost – measure tenant satisfaction with homes we let, aim to improve the standard of the homes we offer to new tenants within a budget per home of £3,900 and reduce the void turnaround time by 50% by the end of the year
  - The average relet time for standard relets has decreased by over 50% and the voids works spend per property has both fallen to £1400 per unit.

"We have reduced the costs of managing the maintenance service by 10% and delivered 50% of vacant property works in house."

Where are we now?

	2017	2016	2015	2014
Stock (number of units)				
- Owned	699	699	694	669
- Managed	1	1	1	1
Total number of units	**700**	**700**	**695**	**670**

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2017 Sector Average
Financial return					
Total operating surplus	1,138	1,128	704	1,131	-
Value of what we own					
Total assets less current liabilities	41,165	41,623	39,693	40,622	-
Our profitability					
Operating Margin	33%	33%	20%	37%	28%
EBITDA-MRI Margin	41%	36%	28%	42%	30%
Operating cost per unit	£3,236	£3,286	£3,450	£2,855	-
Our debt and ability to pay it					
EBITDA-MRI Interest Cover	189%	205%	142%	206%	147%
Gearing	42%	39%	37%	38%	50%
Average debt per unit	£25,465	£24,000	£21,885	£22,892	£24,146

With an increased financial return on assets of 2.85% and a decrease of 1.5% in operating cost per unit this year, alongside significant investment in the future of the business and a robust response to the challenges presented by Brexit, welfare reform, increasing homelessness, the demands of an ageing population and a housing market that is becoming less and less accessible to those on low incomes, the Board has demonstrated that it takes Value for Money seriously but we also accept that there is still more to do.

"The Board has demonstrated that it takes Value for Money seriously but accept there is more to do."

What did we focus on last year to improve our financial health and Value for Money?

By addressing the organisation's appetite for risk and responding to the 1% rent decrease and uncertainty around future revenue streams SHAL's 30 Year Business Plan has been remodelled using the Brixx system. A new development strategy has been implemented.

Regular stress testing of the Business Plan, to destruction, has enabled the board to address key strategic and operational risks. This ensures we remain within our financial covenants, are financially robust and focussed on Value for Money.

Improving SHAL's financial strength was a priority last year, so that we could invest in our current tenants' homes and develop new ones to meet the need resulting from rising homelessness. SHAL has become financially stronger by reducing risks associated with:

- Governance
- Treasury
- Pensions
- Asset Management

"Regular stress testing of the Business Plan, to destruction, has enabled the board to address key strategic and operational risks."

What did we do?

Governance

SHAL has revisited its purpose and vision, updated its rules, standing orders and financial regulations. The skill sets of each board member were reviewed and regular board member appraisals have been implemented.

This has enabled the size of the board to be reduced from 15 to 8, with both the CEO and Deputy CEO appointed to the board. This has created a risk-intelligent board, focussed on SHAL's Strategic Plan objectives; to increase development capacity, invest in stock and create excellent service delivery in order to provide homes for people who are homeless or in housing need.

Treasury Management

In 2016/2017 SHAL's treasury arrangements and policy have been reviewed, resulting in repaying and refinancing our Co-op bank loan facility**.** The cost of breaking the facility with the Co-op was £145,766. SHAL repaid the facility to create additional capacity to build more homes and to attract cheaper debt, on the advice of Canaccord treasury advisors. SHAL attracted total funding offers of £45m from the debt markets.

"As at 31st March 2017 100% of SHAL's debt is fixed until 2026/27."

We entered into a 10 year bank facility with Triodos for £7m and restated our current facility with Lloyds to raise an additional £7m. Within the two loan facilities, SHAL has the ability to manage its interest rate risk by taking advances at fixed rates for periods of variable duration. As at 31st March 2017 100% of SHAL's debt is fixed until 2026 and 2027. This level of fixed rate debt allows SHAL to confidently manage its loan servicing costs and provides the certainty to allow SHAL to grow and prosper.

The new funding arrangements have:

- Reduced our cost of borrowing margin by 1% per year, £50,000 per year, over 10 years.
- Increased the number of homes we have uncharged (and so available to replace any homes lost as a result of the Voluntary Right to Buy) from 54 to 110.
- Increased development capacity from 0 homes to over 70 homes over the next 3 years.

In March 2017 we exchanged on 16 new affordable rented homes in Watchet, West Somerset which are coming into management on a phased basis and will all be let by December 2017, increasing our rental

income by over 2.5% in 2018. This was the result of close working with the housing enabler at West Somerset District Council who secured EDF funding to support the delivery of our affordable homes.

Pensions

Until 3rd June 2016 SHAL participated in the Somerset County Council Local Government Pension Scheme (LGPS), a final salary pension scheme. As at March 2016 the LGPS pension deficit was £1,645,000, on an on-going basis, against an income of £3,428,556. SHAL's employer contributions were 18.5% of staff salaries and it was highly probable that both the deficit and the contribution level would increase year by year, creating significant risk to SHAL's ability to deliver its purpose. The LGPS was an uncapped liability and this was identified by the Board as a key risk to our financial viability.

> "The LGPS was an uncapped liability and this was identified by the Board as a key risk to our financial viability."

SHAL's new funding arrangements, described above, enabled us to review our pension provision. We consulted employees on new pension arrangements and new Terms and Conditions in 2016. Following expert advice, from Smith and Williamson, the board voted unanimously in May 2016 to buy out of LGPS, in which 70% of our staff were active members.

Staff who previously participated in the LGPS were offered an enhanced defined contribution pension scheme, with average employer contributions of 10% of salary and an additional benefits package. The majority of SHAL's employees appreciated the risks presented by this situation and gave support for the closure of the scheme and its replacement with a defined contribution scheme which places SHAL in the top quartile for pension provision.

The pension cessation liability as at 31st March 2016 was valued at £2,312,000 and SHAL ended its relationship with the LGPS on 3rd June 2016. In October 2016 the final buy out cost was calculated at £2,068,000 and all liabilities were fully paid. This has enabled cost certainty going forward and has only been achieved by a handful of larger housing associations. This means that we have eradicated a significant financial risk to the business which impacted SHAL's ability to plan for long term stock and new homes investment.

> "We have eradicated a significant financial risk to the business which impacted SHAL's ability to plan for long term stock and new homes investment."

Asset Management

During 2016/2017 a new asset management strategy was developed to ensure we understood how each of our properties performed. This will allow the board to explore new opportunities in an era of less regulation and potential rent freedoms. It has enabled value for money savings and resources to be refocussed on those tenants that require extra support.

SHAL maintains a comprehensive assets and liabilities register, which is widely used by the whole organisation to help inform both strategic and operational decisions. During 2016/2017 we further developed this register, incorporating additional data, to start to enable the financial performance of each of our homes to be assessed, with regards to valuation, income streams and expenditure profiles based on real costs of maintaining and managing each property. We will further develop this approach in 2017 so that we can generate data which can inform our decisions about property investment or disposal in future.

The vast majority of our expenditure is spent on investment in our homes. 76% of tenants in 2015/2016 were satisfied with the quality of their homes. This is an area that needs improvement. In 2016/2017 intelligent use of our stock condition data and focus on value for money has led to the introduction of a Kaizen 'just in time' approach to manage a £3m investment in planned maintenance over the next 5 years. In 2016/2017 we allocated £595,900 to improving our stock and we established our first procurement plan.

> "Intelligent use of our stock condition data and focus on value for money has led to a £3m investment in planned maintenance over the next 5 years."

We delayed the start of the investment programme until December 2016 in order to ensure we were able to meet our obligations relating to the pension buy-out. Whilst SHAL was unable to deliver the whole investment programme

within the year, due to the uncertainty around the buyout, we delivered 59% of the program in 4 months, 25% of which was delivered in house.

Programme	No. of Homes	Budgeted Cost	Budgeted cost per unit	No. of Homes with works completed	Costs of delivered work	Average cost per unit
Kitchens	39	£180,200	£4,621	27	£132,195	£4,895
Bathrooms	43	£156,300	£3,553	41	£117,850	£2,874
Doors	19	£23,000	£1,211	14	£10,380	£741
Fascia & gutters	92	£100,000	£1,087	36	£49,080	£1,363
Boiler	42	£120,000	£2,857	22	£49,080	£2,231
Fencing	10	£10,000	£1,000	4	£4,700	£1,175
Roofs	1	£6,400	£6,400	1	£4,855	£4,855
Total program	**246**	**£595,900**	**£2,422**	**145**	**£368,140**	**£2,539**

By working collaboratively, establishing an excellent relationship with Bradfords Building Suppliers in 2016, and introducing mobile working into our in-house maintenance team we increased productivity by 21% within our maintenance service and improved the procurement of materials via electronic tendering.

At the same time, by creating a fully mobile maintenance team in 2016 we were able to close our depot at the end of the financial year. This will reduce building lease costs in 2017/18 by 50%. We increased productivity per operative by 21%, reduced the costs of managing the service by 31% and enable 64% of the vacant property works to be delivered in-house.

"We increased productivity by 21% within our Maintenance Service and reduced our building lease costs by 50%."

People

We used coaching and mentoring to develop potential within our committed staff team to ensure that we improve our understanding of performance drivers. We deliver accurate and timely management information to the board, executive team and staff to aid quick decision making and increase confidence in responding to tenants.

We were able to reduce our headcount, organically, by 15% in 2016, due to the introduction of new ways of working and the introduction of digital technology.

Service Delivery

Work has commenced on our digital inclusion strategy, embracing new ways of working and responding to tenants' preferences on how they want services delivered. In our most recent survey, many tenants said they wanted 24/7 service access and better use of digital technology can, we know, help drive excellent customer satisfaction and service delivery. This led to the introduction of MyTenancy in December 2016 enabling tenants to access their rent accounts and report a repair online, 24 hours a day, 7 days a week. This has enabled us to better manage service demand.

"Work has commenced on our digital inclusion strategy, embracing new ways of working."

Between December 2016 and March 2017, MyTenancy was accessed over 300 times by tenants self-serving which made over 4 days of time available in 4 months to refocus resources on tenants who may need that little more help and advice.

How did we perform?

SHAL is a member of Housemark's Small Providers Benchmarking Group in the South West which includes Registered Providers with less than 1000 homes. We know we need to improve our performance in key areas (e.g. income management, responsive repairs and void management) and will ensure SHAL develops the culture and capacity to continually learn what works in order to create financial resilience and organisational agility and deliver the bold ambitions our current operating environment requires.

Upper Quartile	Upper Median Quartile	Lower Median Quartile	Lower Quartile

Tenant Satisfaction

Performance Indicator	SHAL 13/14	SHAL 14/15	SHAL 15/16	SHAL 16/17	Peer Group Quartile 2016/17	SPBM Quartile 2016/17	HouseMark Quartile 2016/17
Overall services	91%	91%	93%	93%			
Quality of home	81%	81%	76%	76%			
Quality of neighbourhood	85%	85%	84%	84%			
Satisfaction that listens to and acts on views	75%	75%	76%	76%			
Operating costs as % of Turnover	62%	74%	67%	67%			N/A

Information benchmarked against Housemark's Small Providers Benchmarking Group South West (Peer Group Quartile), all small providers under 1000 homes (SPBM Quartile) and against all providers (Housemark Quartile).

We last carried out a full tenant survey in late 2015 and are due to do so again in 2018. In 2015, 88% of tenants said we kept them informed (above the median 79% across the sector) but we recognised that we needed to improve how we showed that we listened to people. We have done much work on knowing our tenants and on being able to give prompt, full and accurate information and guidance in relation to their queries, comments and wishes. The data collection exercise we carried out as part of the digital inclusion strategy helped us find out more about tenants and for them to raise any queries with us.

In 2015, we knew from the survey results that Quality of Home was one of the key areas that we needed to work on. In response to that, we significantly improved our void standard so that properties were more attractive to new tenants and met their needs and aspirations. In 2016 we spent £245,000 on minor and major void property repairs, an increase of 83% from 2015. Having carried out a full stock condition survey in 2015, we began SHAL's first planned maintenance programme with particular focus on kitchens, bathrooms, heating and doors.

It was also clear from the 2015 survey that Quality of Neighbourhood was an area of concern for some tenants. In response, we have increased the level of partnership working in a number of geographical areas and have restructured the housing management team so that we have a patch-based housing officer system that will enable us to know our neighbourhoods well and engage with partners to improve the quality of life for our tenants and others.

Repairs and Maintenance							
Performance Indicator	SHAL 13/14	SHAL 14/15	SHAL 15/16	SHAL 16/17	Peer Group Quartile 2016/17	SPBM Quartile 2016/17	HouseMark Quartile 2016/17
Average number of calendar days taken to complete repairs	9.7	9.45	6	8	🔴	🟠	🟠
Cost per home responsive repairs and void works	£635	£803	£738	£551	🟡	🟡	🟢
% very or fairly satisfied with repairs and maintenance	-	-	87%	87%	🟡	🟡	🟢
Improvements and Cyclical Maintenance							
Gas safety certificates - % homes with valid certificate	100%	100%	99.2%*	100%	-	-	-
Cost per home direct major works and cyclical maintenance	£79	£120	£161	£443	🟡	🟢	🟢

*This related to one vacant property which was delayed by 1 day

Last year we spent £360,476 on responsive repairs, a reduction of 6% on the year before as we managed resources more effectively and increased productivity. Feedback from our tenants told us that they were less concerned about the timescale for non-urgent repairs than they were about the quality of work.
During the year, we introduced a digital gas servicing management system to make our processes easier to manage and provide better reporting and monitoring. We achieved 100% servicing of all our occupied homes.

"We achieved 100% servicing of all our occupied homes."

We made a conscious decision to focus our asset management resources on those void properties that needed it most. Although this led to a substantial increase in expenditure on major works, there was also a reduction in the amount we spent on more minor void works. Overall we increased our expenditure in these areas by around 12% in order to improve the quality of our homes and make it easier for new tenants to settle in and start their new lives.

Void and Re-lets

Performance Indicator	SHAL 13/14	SHAL 14/15	SHAL 15/16	SHAL 16/17	Peer Group Quartile 2016/17	SPBM Quartile 2016/17	HouseMark Quartile 2016/17
Average re-let time in days (standard relets)	7**	27*	38*	9			
Rent loss due to empty properties as a % of rent due	0.34%	1.2%	0.6%	0.85%			
Void works spend per property	£2.59**	£3.98*	£3.69*	£0.69			N/A

*Major repairs have been included in this figure but are not included in the benchmark figures against which we are comparing ourselves

**There were no major repairs in 2013/2014

Up to and including 2014, we were turning round void properties very quickly but the standard achieved was poor. We knew from talking to tenants that they were not happy with the condition of properties they were moving into and were struggling, often on very limited resources, to make their new properties comfortable and into a place that they could call home. We embarked on a major turnaround project to ensure that we improved the quality of our void properties to give tenants a good start in their tenancy, particularly important as many are on a low income and have been homeless.

> "The average relet time for standard relets has decreased by over 50%."

This has been a steep learning curve for us and we recognise this is an area where we still need to improve. In 2016/17 we set up a dedicated in-house voids team to ensure that this area of work is carried out as efficiently as possible. We are still learning lessons on how best to achieve a good standard within a reasonable timescale and at a reasonable cost and will continue to focus on this area of work in 2017/18, reporting to both the Audit and Risk Committee and the main Board. The average relet time for standard relets has decreased by over 50% and the voids works spend per property have both fallen to £1400 per unit.

Rent Collection and Arrears

Performance Indicator	SHAL 13/14	SHAL 14/15	SHAL 15/16	SHAL 16/17	Peer Group Quartile 2016/17	SPBM Quartile 2016/17	HouseMark Quartile 2016/17
Rent collected as % of rent due	101%	98%	102%	100%			
Rent arrears of current tenants as % of rent due	2.77%	3.7%	3.18%	4.47%			
Cost per property of housing management	£179	£200	£254	£354			
Satisfaction % very or fairly satisfied that rent provides VfM	87.8%	87.8%	83%	83%			

In 2016 Sedgemoor was one of the first areas to roll out Universal Credit and, by March 2017, over a third of our tenants claiming benefits had been transferred on to it. This new online system with monthly payments, a call-centre based operation and significant delays in tenants receiving their first payments has meant that for SHAL, in common with other landlords, tenants on Universal Credit tend to have larger rent arrears than others. Indeed, at the end of March 2017, 30% of tenants not on Universal Credit were in rent arrears whereas, for those on Universal Credit, the figure was 72%. It is also the case that, of those tenants in arrears, the typical rent arrears of someone on Universal Credit are three to four times higher than a tenant who is not in receipt of that benefit.

> "At the end of March 2017, 30% of tenants not on Universal Credit were in rent arrears whereas for those on Universal Credit, the figure was 72%."

Responding to the introduction of Universal Credit has been a challenge, and arrears have inevitably risen, but we continue to seek expert advice and guidance, to learn from other organisations and to develop the policies, systems and partnerships which will enable us to respond appropriately and to assist our tenants to take full control of their finances. We have restructured the housing management team to provide tenants with patch-based Housing Officers who will know them better and be more able to assist and advise on tenancy, rent and personal finance issues. A strong relationship has also been developed with the local Citizens Advice Bureau which enables us to fast-track referrals to money advice workers for those tenants who need more formal money and debt advice. Without this hard work, the increase in rent arrears would, undoubtedly, have been more significant.

The cost of the housing management service increased by around 39% in the year, entirely due to staff turnover and long-term sickness issues (and the need to cover those posts with interim staff). All these issues have now been successfully addressed and we anticipate a corresponding decrease in costs in 2018.

> "Without this hard work, the increase in rent arrears would, undoubtedly, have been more significant."

What are we aiming to improve in 2017/18?

The Board has challenged our staff team to:

- Increase our stock holding by 5% within the capacity of our Business Plan
- Ensure that 25% of our homes receive some improvement under our Homes Investment Programme
- Routinely digitally communicate with 50% of our tenants by March 2018
- Reduce the cost of responsive repairs, void maintenance and cyclical maintenance by 3%
- Involve our tenants in scrutinising our repairs service
- Ensure that employees and board members have the capacity and resources to respond effectively to a volatile, uncertain, complex and ambiguous world
- Develop further SHAL's response to Austerity with the objective of maintaining rent arrears at the current level in light of the continuing roll-out of Universal Credit and other welfare reforms
- Identify and respond to the potential for strategic partnerships across Somerset
- Innovate in response to the rise in homelessness
- Improve productivity in housing management, by reducing the cost of the service by 5% and maintaining or improving performance

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