homes, communities, cultures

Connect Housing Association 2016/17
Value for Money Self-Assessment

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Contents

1. Introduction

Connect is a not-for-profit community-based housing and support provider with over 3,000 homes across Leeds, Kirklees and Calderdale.

Connect sees its purpose as:

- A community asset, supporting people and places to be the best they can be.

Connect's vision is:

- A more equal society where a good home, a good neighbourhood, good health and good prospects are within everyone's reach.

Connect is also a member of Placeshapers, a national network of more than 100 community based housing associations housing more than 25% of those living in a housing association home in England. Connect is very much committed to the 'Placeshapers' principles of:

- Putting our residents and customers at the centre of what we do, ensuring they have real influence on our organisation.
- Providing more than just landlord services because we care about the people and places where we work.
- Recognising the importance of a local focus and working actively with our local authorities and other local partners to improve and shape places at both a strategic and operational level.

Achieving Value for Money (VFM) is often described in terms of the 'three Es' (economy, efficiency, effectiveness) .For Connect's approach to VFM **we extend this to include 'Equity' as a fourth 'E': this** is to emphasise that decisions will be taken in line with our Values and commitment to communities, reflecting that **the VALUE element of VFM means a lot to us:**

- **Equity** – ensuring services are delivered fairly to a diverse range of customers in line with Connect's Values.
- **Economy** – careful use of resources to save expense, time or effort;
- **Efficiency** – delivering the same level of service for less cost, time or effort;

- **Effectiveness** – delivering a better service or getting a better return for the same amount of expense, time or effort, making a positive contribution to community assets;

Connect defines Value for Money as doing:

- **the right things** (what customers want and what the business needs);
- **things right** (first time);
- **it at the right price** (not necessarily the cheapest); and
- **It in the right way** (the most streamlined way that meets requirements).

At the heart of the Value for Money Strategy, Connect aims to:

- Embed Value for money into Connect's culture: reinforcing Value for Money as one of the principles at the heart of everything we do and keeping affordability centre-stage in decision-making.

In line with regulatory requirements, this self-assessment report is transparent and accessible to our stakeholders about how Connect is achieving value for money in delivering its purpose and objectives.

This self-assessment aims to:

- Enable stakeholders to understand the **Return on assets** measured against Connect's objectives – Connect is **pleased that its Return on Assets of 6.2%** in 2016/17 compares favourably to the Homes and Communities Agency (HCA) 2016 Global Accounts benchmark of 5%, and is an increase from the 2015/16 outturn of 5.4%.
- provide details on the **costs of delivering specific services** and show how they compare to similar organisations – Connect's aim is to provide **affordable quality,** aspiring to achieve **mid-upper / top quartile performance** on its key services (see HouseMark Cost and Performance Summary/forecast below), and striving to do so at the **most affordable cost – the Association is forecasting 9 mid-upper/top quartile outturns for 2016/17 compared to 4 in 2015/16.** The HCA also provide an overview social housing cost per property (SHCPP) analysis which the Association references as part of the VFM approach on benchmarking. This analysis shows that the Association's overall cost per

property has decreased from £4207 in 2015/16 (against a median of £3570) to £3754 in 2016/17, **resulting in an overall year-on-year saving of £1.2m.** This saving exceeded the Business Plan target of £977k set in the revised Business Plan following the minus 1% rent cuts introduced by the Government's July 2015 budget. The saving reflected a reduction in Management and Major Repair costs year-on-year, but also higher levels of 'Other social Housing' costs reflecting the Association's continued commitment to Support Services. **Comparing on a like-for-like basis which excludes 'Other Social Housing' the Association's 2016/17 cost per property was £3144 compared to the 2015/16 sector median of £3360.** Connect also has a much higher level of Supported Housing and Housing for Older People compared to the sector as a whole which the HCA acknowledge can result in a higher cost base. The Association is however committed to reducing costs provided quality and Health & Safety are not adversely impacted and is therefore **budgeting for a £483k reduction in overall Maintenance costs in 2017/18** (£1170 cost per property against the 2016/17 outturn of £1335), reflecting planned efficiencies, and moving closer to the sector median.

- Evidence the **value for money gains** that have been, and will be, made and how these have been, and will be, realised over time. As part of the wider operational efficiencies and robust fiscal stewardship referred to in this report, Connect has again **increased its year-on-year VFM gains notified by staff from £153k to £340k in 2016/17** and will continue to reinvest these resources in areas that our tenants have told us are important to them. As a not-for-profit organisation all such savings are reinvested **allowing Connect to deliver 92 properties to its stock in 2017/18 and supporting plans to increase its stock by approximately 25% (700+ properties) over the next 10 years.**

The Board of Management has a very strong focus on VFM, including 2 Board members designated as VFM Strategic Leads and an additional review stage of both the VFM Strategy and Self-Assessment by the Audit & Risk Management Committee. Based on the self-assessment that follows, the Board believe that Connect complies with the Regulator's Value for Money Standard, whilst recognising that scope always remains for continuous improvement.

In line with the Governance, Viability and VFM Standards, the Board has completed their Partnership and Mergers Strategy annual review of alternative delivery models and, whilst open to merger proposals, believe that Connect's purpose and objectives are best met through partnership working at this time.

David Wolverson	Helen Lennon
Chair of the Board of Management	Chief Executive

2. Return on Assets

The affordable homes in which our residents live are the main assets which provide Connect with income. As custodians of these assets, managing the performance and financial return from these homes is essential to ensure that the organisation can grow and continue to deliver social benefit and community assets for future generations.

Active management enables Connect to ensure that our assets maximise their contribution towards organisational objectives.

How are our assets performing at a headline level? – Return on Assets (ROA)

In terms of Return on Assets (ROA) as a measure the Global Accounts 2016 indicate an aggregate entity figure of 5.0% (see table 1 below), which we compare to assess our headline performance.

Table 1 – HCA Global Accounts 2016 aggregate Return on Assets calculation (Entity)

Operating surplus (Aggregate SoCI)	£	5,000m
Depreciated Value of housing properties net of grant* (Aggregate SoFP)	£	99,500m
Aggregate ROA		**5.0%**

* Arrived at by taking the cost of housing properties and deducting any applicable depreciation and Deferred capital grant as shown in the Statement of Financial Position.

Connect's ROA analysis is based on the latest published accounts for the year ended 31st March 2017 which our external auditors have confirmed show a True and Fair view. This analysis (see table 2 below) has been performed for the overall stock and for each income stream.

Table 2 – Connect's Return on Assets (ROA) 2016-2017

	Operating Surplus £'000	Capital deployed £'000	2017 ROA %	2016 ROA %
Rented social housing	3,479	53,578	6.5	5.5
Shared ownership	256	3,364	7.6	5.3
Commercial & Student accommodation	108	5,051	2.1	4.7
OVERALL	**3,843**	**61,993**	**6.2**	**5.4**

The Association's ROA of 6.2% is favourable to the 5.0% delivered by the sector (Table 2) and **Connect is pleased with this outcome**. Excluding some extraordinary investment in our Commercial stock (noted below), the Association's overall ROA would have achieved 6.6%. This year's ROA's is an improvement on the 5.4% achieved by Connect in 2015-16 (reflecting as it does both an increase in operating surplus as well as continued investment in new and improved housing), and will continue to be closely monitored by the Board going forward.

The following observations can be made in relation to income streams:

- **Rented social housing (86% of capital deployed)** – delivers the second highest return on assets (highest if we exclude first tranche shared ownership sales – see below) with the vast majority of properties being let at social rents. The return has improved year-on-year from 5.5% to 6.5% with fairly stable income alongside savings on operating costs. During 2016-2017 we have seen investment in our social rented housing stock, improving the services we offer, and maximising our realised income;

- **Shared ownership housing** – delivers the highest return on assets and reflects an increase in both income and operating costs. An improved surplus on first tranche shared ownership sales year-on-year have led to an increase in the return from 5.3% to 7.6%;

- **Commercial and Student accommodation** – delivers the lowest return on assets. Usually these properties require relatively little management/support and so operating costs are low compared to turnover. However, this year has seen significant investment in some of these properties in the form of necessary planned maintenance work which has led to a notable increase in operating costs alongside a small reduction in income. This has seen the return on these properties fall from 4.7% to 2.1%, but will improve going forward given the infrequent nature of such large scale investment.

Achieving a healthy financial return from assets is important to enable Connect to invest in improvements to existing homes, add to the stock of new homes and continue to deliver quality services for residents. Whilst Connect is mindful of the usefulness of Return on Assets (ROA) as a global indicator, we are now using Net Present Value (NPV) as the performance indicator to measure the efficiency of our assets at a granular level – looking at future income and cost streams associated with an asset, discounted to give a present day value.

Asset Management

Our asset management approach seeks to build on our traditional commitments; maintaining high quality accommodation for existing tenants, and balancing this with investment in new homes to expand our impact to a wider customer base.

In 2016/17 we refreshed our asset management strategy with a focus on improving our knowledge and actively managing our asset portfolio. Through data improvement we will be able to make better informed decisions and progressively improve the performance of our assets.

Understanding Asset Performance at a Detailed Level

We have commissioned and updated our Asset Performance Model which enables us to understand the performance of individual assets, with NPV forecasts available for each property. During the development of our new asset management strategy Connect's Board contributed to the development of this model to ensure that it utilises appropriate performance measurements which focus on Connects' objectives.

Our options appraisal model has been used to target those homes with a comparatively low NPV, high investment needs or accommodation which has been assessed as not meeting residents' expectations in terms of quality. We are currently improving data and expanding appraisals to focus on larger sections of stock to develop our understanding of how disposals could further improve our ability to gradually transform our asset base and maximise our delivery of new affordable homes.

Our Active Asset Management approach enables us to review properties from across our portfolio. We generated £450k from open market disposals in 2016/17 with a further £1.3M in sales identified as a target for 2017/18. Further assessments have already identified an additional 15 properties with a capital value of £500k, disposal of these will be realised in future years.

Improving our knowledge

Two of the key performance indicators in our asset performance model are:

- customer satisfaction with their homes;
- Long-term financial performance.

We recognise that data relating to these areas needs to be continually improved if we are to achieve progressive improvement in the performance of our portfolio.

We are undertaking ongoing improvement to our stock condition data. In 2017 we commissioned external surveyors to undertake surveys of 20% of our stock which will be supplemented by further data collection from internal surveyors.

We are undertaking several direct research projects with customers and trialling new measurements of customer loyalty and engagement to help us better understand whether our assets are meeting our customer expectations and what their priorities and expectations are for investment in their homes.

Following completion of this research we have committed to undertake a review of the frequency with which we replace major components. This will potentially enable us to make targeted reductions to our 30 year investment plan and improve long term financial performance without impacting on customer satisfaction.

Investment

During the year the Major Repairs cost per property reduced from £779 to £598, which is below the 15/16 HCA median of £810. This improvement in performance was largely driven by a reduction in planned maintenance spend. The capital investment budget had been set at £1.5M based on stock investment requirements, however savings of £250k were realised against this budget leading to actual investment of £1.25M.

Savings were achieved through:

- £60k retendering kitchen installation to smaller local contractors (contract compared to prior years costs);
- £145k investment saved on assets identified for disposal.

During the 2016/17 financial year 46% of the planned maintenance budget (£650k) was spent on components which improved the energy efficiency of our homes. We installed 95 boilers, 107 doors, windows in 101 properties, replaced communal lights on two schemes and topped up loft insulation where possible.

In 2017/18 we are looking to achieve further savings through changing methods of service delivery to continue to reduce maintenance costs. We have expanded our in-house property services team to enable Connect to install replacement boilers and central heating.

We have approximately 60 properties with a SAP (Standard Assessment Procedure for the energy rating of dwellings) of below 60 which makes it expensive for our tenants to live comfortably in. In many cases it is uneconomical to increase the SAP to the desired level. Connect's asset management strategy focusses on improving the performance of our stock and investing in good homes. Properties which have undesirable energy efficiency are identified within our Asset Performance Model. If long term investment is not considered VFM and these properties are dispersed and / or leased then it is likely that a recommendation will be proposed to dispose of these properties.

Development of New Homes

Active management of our assets and achieving efficiencies in maintenance expenditure enables Connect to maximise its investments in the acquisition and development of new homes. Details of recent and projected activity are shown below:

Year	Units handed over into management	Total Cost £000	Total Grant £000	Private Finance/ internal funds
14/15	48	4263	1333	2930
15/16	34	2205	168	2037
16/17	43	3404	929	2475
17/18	92	7505	1140	6365
Total	**217**	**17377**	**3570**	**13807**

The increase in units handed over into management expected in 2017/18 reflects Connect's success in securing new homes through section 106 acquisitions (whereby private developers are required to offer at a discounted cost a percentage of new housing developments for affordable housing). Properties delivered by this route generally represent exceptional VFM in terms of purchase price, on-going maintenance and also in terms of customer satisfaction. **This development route will play an important part in Connect's plans to increase its stock by approximately 25% (700+ units) over the next 10 years, at the same time freeing up resources to deliver additional new specialist and supported housing, for which the market does not provide, and which is an important part of Connect's strategic objectives.**

The capacity to expand development activity will be created not only through general efficiency measures, but also specifically through the active asset management strategy whereby Connect will release capital resources through the disposal of expensive (to maintain and manage) dispersed stock, replacing it with new clustered developments. The delivery of the development plan is dependent on the ongoing vibrancy of the housebuilding market locally, the availability of s106 opportunities, and on Connect remaining competitive in the bids it makes for those properties.

Connect are committed to achieving our organisational values and supporting the most vulnerable people in society. In 2016/17 in partnership with Kirklees Council we developed 16 new build properties for people with physical and learning disabilities at Knowl Grove and Siggot Street. Connect is proud that it continues to increase its offer of high specification, specialist housing, whilst also offering the local authority revenue savings estimated at up to £55k per annum compared to the costs the local authority is incurring for alternative provision.

3. Cost comparisons to others

Connect's costs and performance

Creating affordable homes and building neighbourly places to live are key objectives for Connect. The annual Tenant Report informs tenants about our performance in working towards these objectives. It is written on behalf of tenants by the Connect Residents Federation (CRF) - Connect's Critical Friend. Members of the CRF sit on the Service Improvement Forum (SIF) which is the tenant scrutiny group for Connect; the SIF considers how well Connect has performed each year against a set of service commitments. Of the 41 service commitments that could be measured and/or evidenced, the tenants on the scrutiny group found that 32 (78%) were achieved in 2016-17, 6 were almost achieved but with some concerns and 3 were not achieved. Plans for improvement have been agreed and will be monitored by the SIF.

Meeting targets – supporting affordability

Connect recognises the importance of fiscal stewardship in ensuring the financial viability of the association and in supporting its wider corporate objectives and social investment. The Board of Management was very pleased to receive the HCA's Stability Check assessment in November 2016 confirming **Connect "meets the requirements set out in the Governance and Financial Viability standard."**

The Board was also very pleased to report another strong financial performance for the year with a surplus of £2.1m (up from £1.5m). As with previous years, this level of surplus reflects a strong operating performance, combined with efficiency savings (in particular related to the minus 1% rent cuts introduced by the Government's July 2015 budget – see HCA cost per unit analysis below), and the continuing savings from the current low level of interest rates.

Treasury activities

Also supporting the savings from low interest rates has been the favourable impact arising from Treasury Management activities:

- A re-financing exercise just prior to the 'credit crunch' in 2008 has meant Connect has since enjoyed a **significant on-going interest payable (margin) saving compared to current rates on approximately 2/3rds**

of its existing loan portfolio – conservatively estimated to be saving the Association in excess of £250k per year since 2009;

- The Association's Weighted Average Cost of Capital is 4.8% against a median rate of 4% (as reported in the Housemark 2015/16 benchmark report). This position arises largely because of the very high long term fixed rates entered into many years ago, although the highly competitive rates achieved as part of the 2008 refinancing have helped to moderate this considerably;
- The Association paid off a £2.75m long-term fixed rate loan (11.5% 1991-2016) in October 2016, and subsequent drawdowns have been made on a variable rate basis of less than 1.5%. Following this repayment, the Association's weighted average cost is expected to be much closer to the currently published median going forward.

Operational achievements

From a broader operational perspective, during 2016/17 Connect has continued to perform above or near target in many key areas despite an ever more challenging backdrop:

- **Arrears performance** was 2.9% (before write-offs) against the target of 5.6%, which was a **£67k improvement** on the previous year (3.4%), and is expected to be **another upper quartile in terms of performance benchmarking.** Costs for this area have been high in the past, however an investment in 'Rentsense' software has allowed for **a reduction of 2 Full time equivalent staff, despite the impact of Welfare Reform, which has reduced the cost of this activity.**
- **Void rent loss** – the Lettings Team have made **significant improvements** throughout 2016/17, particularly in reducing the average re-let time for General Needs from **44 days in 2015/16 to 23.5 days in 2016/17** (against a target of 33 days). Void rent loss for both General Needs and Supported Housing reduced from £224k in 2015/16 to £156k, **an improvement of £68k**. This reflected both the implementation of a new service improvement plan (with better marketing and faster void repair turnaround being key), and a renegotiation of restrictive contractual arrangements for Supported Housing referral sources.

- Connect receives a high number of **Anti-Social Behaviour (ASB)** complaints compared to benchmark peers, 213 (218 in 2015/16) although still achieving 100% in terms of targeted response times. In terms of resolution rates, the Association achieved 97% in 2015/16 and **this rose to 100% in 2016/17 which is top quartile performance**. Conversely, satisfaction with the ASB service was noted at 70% for 2016/17, which is expected to be lower quartile performance – this will be a key focus for the team. Benchmarking information from 2015/16 has also indicated ASB to be a high cost activity. Procurement efficiencies have been gained with the suppliers of legal advice, mediation and the out of hours ASB reporting service in this reporting year. The service now being provided by our legal contractors is also a better quality for Connect and our customer e.g. an added extra being reassurance calls, is now included in the relatively new out of hours ASB call system.
- Average number of **days lost to staff sickness** – for reasons many and varied this increased significantly in 2016/17 with longer term absences contributing over 60% of the overall days lost. Based on Housemark criteria the Association reported 15.1 days (at an approximate cost of £250k) against a target of 7 and this will be bottom quartile performance. A new People Strategy has been approved by the Board (July 2017), this contains initiatives targeted to reduce sickness by at least 50% over the 3-year duration of the strategy.
- It is pleasing to note that despite challenging targets set for 16/17 the direction of travel has generally improved. **Overall satisfaction with Connect was 88%** against a target of 91%, **with 87% of customers satisfied that Connect offers Value for Money**, up from 83% in 2015/16.

How does Connect compare?
In addition to the monthly and quarterly performance reports, and the annual Tenant Report, Connect also uses **HouseMark's benchmarking service** to help assess its relative performance in terms of the 'four Es' and also to provide an independent and transparent source of information to our tenants. Benchmarking is important to any business, providing key comparisons with similar organisations, helping them to understand strength and weakness, and allowing them to learn from 'the best'. The

introduction of a **Social Housing Cost per Property (SHCPP) measurement by the HCA** has added a further global cost comparison to the sector. Furthermore, Connect has signed up to the **Sector Scorecard** pilot, submitting data for the year ended 31st March 2017.

Homes & Communities Agency SHCPP data

The HCA introduced this approach to measuring housing association costs given concerns regarding the wide variation in headline costs across the sector. The HCA approach is to provide a headline social housing cost per property (SHCPP) derived from the Global Accounts, and to break that down into key cost lines set alongside equivalent figures for the sector as a whole "to provide context".

Connect's figures for 2015/16 are shown below in table 2 and although the headline cost per property of £4,207 is above the sector median of £3,570 it is pleasing to report an 11% year-on-year reduction for 2016/17 (now £3,754 calculated from our latest 2016/17 draft accounts), **resulting in an overall year-on-year saving of £1.2m.** The HCA also acknowledge that associations which undertake Supported Housing and Housing for Older People often have higher costs than their peers, and it should be noted that Connect has a very high percentage of both (9% and 26% respectively) compared to the 2016 sector averages (4% and 11% respectively).

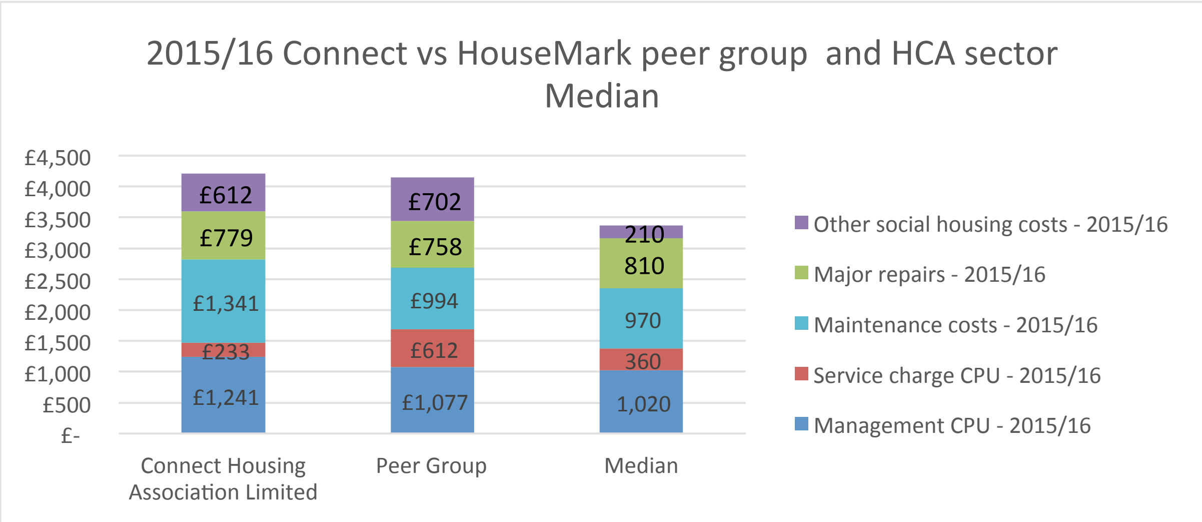
The tables below show that Connect's preliminary headline Social Housing Cost per Property (SHCPP) of £3.8k for 2016/17 would move us much closer to the sector median, although we need to see the full sector results for 2016/17 to confirm this.

Table 1 – HCA Global Accounts 2016 extract showing headline SCHPP and Key cost lines

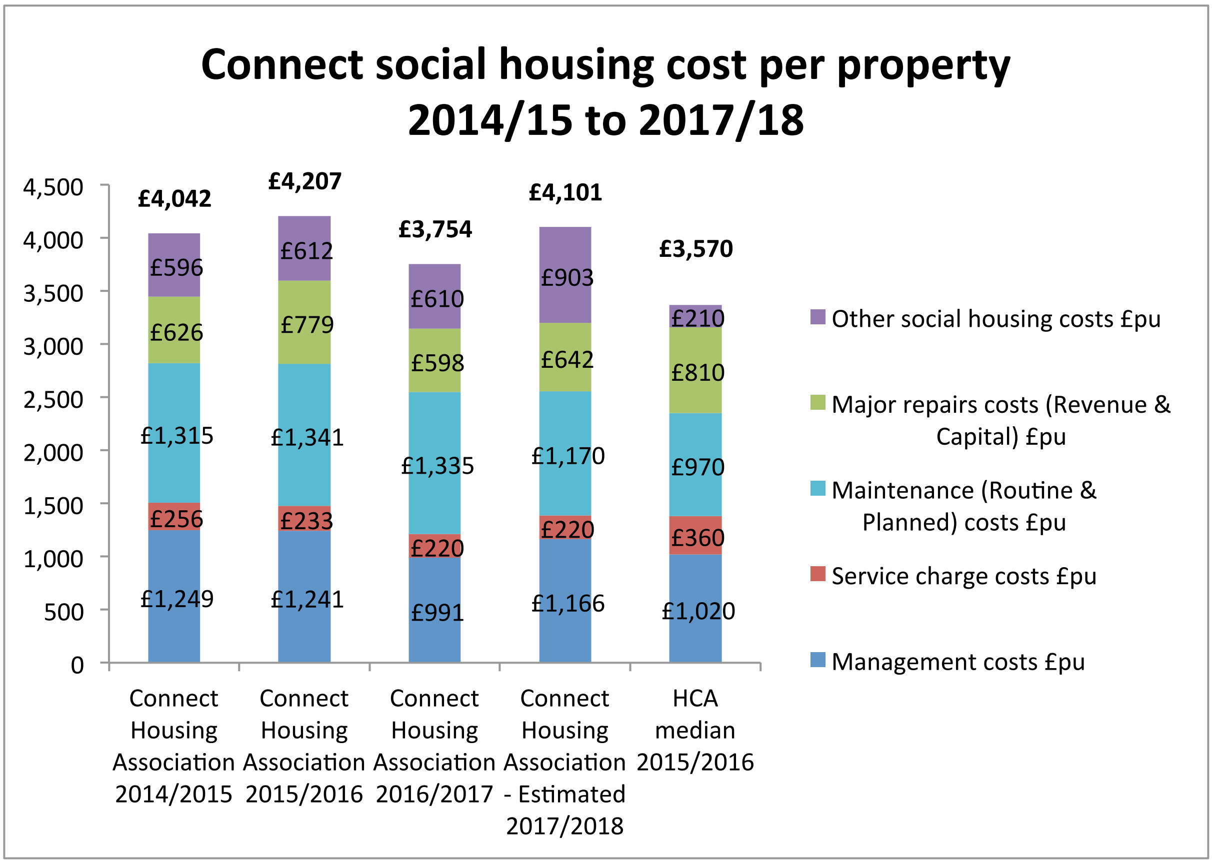
Sector as whole	**Upper quartile £**	**Median £**	**Lower Quartile £**
Headline SHCPP	4,350	3,570	3,120
Management	1,320	1,020	740
Service Charge	600	360	240
Maintenance (Routine and planned)	1,180	970	790
Major repairs (Revenue and Capital)	1,080	810	540
Other social housing	450	210	80

The cost comparison graph below shows that Connect's Social Housing Cost per Property (SHCPP) of £4.2k compares fairly favourably against our selected peer group (See **Appendix A** for further information), but less so against the HCA full sector median of £3.6k, with Connect's costs being approximately 18% higher. This in part reflects higher Management and Maintenance costs compared to the median (see below for further details), but also higher levels of 'Other Social Housing' activity, an area that the Board are committed to maintaining where possible.

This year, we have retained the same peer group, comparing ourselves against 17 other organisations, representing the North & Midland Placeshapers housing associations with between 1000 and 5000 social housing units (including both Supported Housing and Housing for Older People properties). We feel that comparing ourselves to associations who work to the 'Placeshapers' principles (listed on the first page of this VFM self-assessment), in particular putting residents and customers at the center of what we do, gives a fairer comparison in terms of both costs and performance.



The costs comparison graph below further analysis the HCA cost per unit data over recent years and looking forward to the 2017/18 budget year, and includes the 2015/16 HCA median for reference.



Key observations to note from this analysis are:

- **Management costs** at £991 per unit **in 2016/17 fell by 20% (representing a saving of £722k)** and are now below the 2015/16 sector median of £1020. This fall reflects a streamlining of management and operating cost (including scaling back of Community Services activities, Income Services and Senior Management) in light of the on-going minus 1% p.a. rent reduction regime and uncertainties beyond the current agreement. The estimated increase in 2017/18 is based on a prudent budget which currently assumes no staff turnover, restructuring or other on-going initiatives, and the forecast outturn is expected to be much closer to the current median.

- **Maintenance costs** have remained static in the 3 years to 2016/17 but are **budgeted to reduce in 2017/18 by over 12%** to £1170 per unit **(saving £483k if achieved)**, reflecting efficiency savings planned by the Association's in-house maintenance team in particular, including bringing more activities in-house. Further work is however on-going to reduce this figure further towards the sector median of £970 per unit.

- **'Other Social Housing Costs'** have remained stable at approximately £600 per unit in the 3 years to 2016/17. This level is much higher than the published median of £210 per unit, but reflects Board's commitment to Supported Housing activities where economically viable. **Costs are budgeted to increase to £903 per unit in 2017/18 reflecting the commencement of a new housing support contract (Engage):** a city-wide housing support service to prevent homelessness and tenancy breakdown, sustain independent living and integrate with communities. Connect's specialism will focus on developing Dementia services and volunteering and employment opportunities, on a consortium basis with 4 other providers on behalf of Leeds City Council. **This contract is self-funding, makes positive contribution to Connect's overall surplus**, **and reflects the Board's desire to continue to deliver such activities whenever viable.**

Sector Scorecard

The Association has also participated in the Sector Scorecard pilot. From 2017/18 it is expected that the Sector Scorecard will replace the VFM Self-Assessment in its current format and an example of this can be found in **Appendix B.**

HouseMark Cost and Performance Summary

This section of the Self-Assessment looks at the 2016/17 outturn position of Connect using the latest available 2015/16 HouseMark comparisons on cost and performance (Connect does submit its benchmarking data as early as possible after the year end but fully comparative 2016/17 data is not expected to be released by HouseMark until September / October 2017). The quartile represents performance compared to our peer group. The comments box relates to our expected position based on the 2016/17 draft accounts to give an idea of our direction of travel ***N.B this is still relative to the published 2015/16 median until Housemark are able to provide the updated 2016/17 position.***

HouseMark provide quartile symbols for costs measures in this table for ease of interpretation. However, it must be recognised that high costs / investment (particularly around major works) is not necessarily a bad thing.

A key aim of the Association is to provide affordable quality i.e. high quality services (exceeding the target to achieve at least median and preferably mid-upper level performance) at an affordable cost. The analyses below highlight some strengths (shown in green) as well as a number of areas we still need to focus on (shown in amber and red).

Headline measures	Your value	2015/16 Quartile	Comments	16/17 Forecast
Costs headlines				
Overheads as a % of adjusted turnover	15.3		14.5% per draft accounts – median 14.8%	
Total CPP of Housing Management	561.58		Quartile position not expected to change – median £584.09	
Total CPP of Responsive Repairs & Void Works	870.32		Quartile position not expected to change – median £766.02	
Total CPP of Major Works & Cyclical Maintenance	1,520.24		31% reduction in full year spend: £1.8m to £1.246m	
Operating margin	19.3		22.4% per draft accounts – median 22.8%	
Operational performance headlines				
Rent arrears of current tenants net of unpaid HB as % of rent due (HAs only)	2.02		2% per Q4 PI report – Quartile position not expected to change – median 3.43%	
Average re-let time in days (standard re-lets)	44.59		23.5 days GN/HOP per Q4 draft figures – median 21.13 days	
Rent loss due to empty properties (voids) as % rent due	1.02		1.2% per Q4 PI report – Quartile position not expected to change	
Average number of calendar days taken to complete repairs	8.60		9.1 days per Q4 PI report – Quartile position not expected to change	
Percentage of repairs completed at the first visit	75.0		78.7% per Q4 draft figures – median 91.4%	
Percentage of properties with a valid gas safety certificate	100.00		100% per Q4 draft figures	

Staff turnover in the year %	17.5		20% per Q4 draft figures – median 20.5%	
Sickness absence average working days/shifts lost per employee	8.4		15.5 days per People Strategy – median 8.1 days	
Satisfaction headlines				
Satisfaction with the service provided (%)	87.8		88.1% per Q4 draft PI – median 87.8%	
Satisfaction with the repairs & maintenance service (%)	83.4		84.7% per Q4 PI report – median 83.4%	
Satisfaction with rent VFM (%)	82.1		87.4% per Q4 PI report – median 84.6%	
Satisfaction with quality of home (%)	85.2		86.1% per Q4 PI report – median 87.7%	
Satisfaction with neighbourhood (%)	83.2		83.9% per Q4 PI report – median 88%	

Key	
Upper quartile	
Middle upper quartile	
Median	
Middle lower quartile	
Lower quartile	

In summary:

- <u>Cost headlines</u> – improving picture: based on improving performance in 2016/17 forecasting an increase to 3 middle upper quartile areas, up from only 1 in 2015/16. No lower quartile assessments expected now (previously 1). Reducing the Maintenance overall cost per property and improving the operating margin remain key priorities.

- <u>Operational performance headlines</u> – expected to remain a mixed picture:

highlighting the need for a continued focus on right-first-time repairs and staff absences.

- Satisfaction headlines – improving picture: satisfaction with the service provided, with repairs & maintenance and with rent VFM are all expected to increase to middle upper quartile. Further work is needed on satisfaction with quality of home and with neighbourhood in particular.

VFM achievements, how we use savings and plans for the future

VFM achievements

As noted earlier in this report, based on the HCA's Social Housing cost per property falling from £4207 to £3754, **the Association has made year-on-year saving of £1.2m.** This has resulted from a multitude of initiatives across the association to improve performance and save money and time where quality and Health & Safety are not adversely impacted. Staff are encouraged to email all such initiatives to 'Dear Prudence' and a flavour of these efficiencies is noted below. Many are related to the maintenance and management of our assets as this is one of the key areas we want to focus on for future efficiencies, in particular making best use of our in-house maintenance team instead of 3rd party contractors.

1. **Maintenance and Management of our assets**
   - Estates Officer employed directly - estimated full year savings of £27k (£20k saved in 2016/17). Following a review of contractor costs and tenant satisfaction a decision was taken to employ a member of staff directly in this area with an estimated full year saving of £27k pa. This post allows for additional focus on routine safety compliance on estates and the management of grounds maintenance and cleaning contracts.
   - Guttering – estimated full year saving of £15k pa (£8k saved in 2016/17) as this gutter cleaning machine allows gutters to be cleaned without the need for scaffolding. In addition to cleaning gutters more cost effectively this initiative has the benefit of removing risks around working at height.
   - Key safes – estimated saving of £6.5k. The use of key safes ensures prompt access by contractors, reducing the time spent chasing up keys and completing required works.
   - Empty properties instead of welfare units (space for on-site staff to rest and eat as required by law) – conservatively estimated to have saved £3.6k pa as hiring such units can cost £600 per month.
   - Electrical testing – prior to this activity gradually being brought in-house the existing contractor cost per unit has been reduced by 25% (£75 per inspection compared to over £100 per inspection charged by other contractors).
   - Implementation of Gas safety check software has resulted in no injunctions being required in 2016/17 (saving of £1.2k + staff time per injunction)
   - Lift servicing – a new contract for servicing lifts has been agreed which has an improved quality of service and drastically reducing the number of breakdowns at the same price. The new contract also includes a battery test for stair lifts which has reduced repairs by 80%.
   - In-house maintenance team:

a. Procurement – during 2016/17 a review of the way we purchase materials used in repairs and home improvements was carried out. The results will be used in 2017/18 to steer our approach to procurement of materials including van stocks.
b. Continued investment in our technicians in order to upskill and expand the range of activities undertaken by in-house maintenance team.

2. Arrears and tenancy management

- Economic inclusion – the Board strongly supports economic inclusion for our tenants and has invested in a team of 5 staff who make up the Money Matters Team at an overall cost of £272k. Proactive support to vulnerable tenants has resulted in over a 50% drop in applications to court for possession (48 to 23) resulting in £12.5k savings and an estimated £60k saved on eviction costs.
- Rentsense software – estimated saving of £25k. This is an addition to our rent account management system allowing staff to work smarter and more efficiently to keep arrears low. Use of this software has also allowed Rent Accounting Officers to deal with an extra 61 cases per week.

3. Other savings

- Total Reward Review – estimated full –year savings of £78k (£52k) arising from the decision to reduce the senior management team by 1, from 5 to 4 posts.
- Procurement - achieved savings of at least £50k including £22k on Insurance, £21k on ASB / out-of-hour services, £11k on Internal Audit fees.

4. Information Services

- Significant improvements have been made on Performance Information reporting in standardising datasets increasing the overall output of reports. With new Patch Reporting, Supported Housing Reporting and Quarterly Housemark Reporting (rather than just annual) now being achieved at their required schedules.
- New approach to recording maintenance & Health & Safety whilst on estates, resulting in more accurate reporting and faster completion of required works.
- Implementation of new SelectHR system (iConnect) allowing for much improved Human Resources reporting abilities, including monitoring of sickness levels.

How we are using the savings we make?

1. **Boost housing supply** – Connect has ambitious plans to increase its stock of housing by 25% (700+ properties) over the next 10 years. The capacity to expand development activity will be created not only through general efficiency measures, but also specifically through an active asset management strategy whereby Connect will release capital resources through the disposal of expensive (to maintain and managed) dispersed stock, replacing it with new clustered developments.
2. **Financial inclusion** –the Association continues to invest heavily in this area **with £272k invested in the Money Matters Team** (£279k in 2015/16). The team processed 386 referrals and helped 265 tenants, reducing the number of evictions, court applications and notices served. The bullet points listed below list the savings achieved for both clients of the services, Connect and our communities more widely:
   a. Our business – **arrears of tenants using the service reduced by £36k and an overall saving of £368k (£338k)** has been estimated based on 70% of the tenants using the service being able to pay their rent and reduce their arrears;
   b. Out tenants – **savings of £574k (£410k) generated for our tenants**;
   c. Our communities – using the HACT Social impact calculator **savings of £1.26m have been identified for our communities,** thus for everyone £1 invested in the service, £10.76 (6.92) has been generated in social value.

3. **Home safety and improvements**
   a. Energy efficiency
      i. During the 2016/17 financial year 46% of the planned maintenance budget (£650k) was spent on components which improved the energy efficiency of our homes. We installed 95 boilers, 107 doors, windows in 101 properties, replaced communal lights on one scheme and topped up loft insulation where possible.
      ii. During 2016/17 approximately 110 households have received advice on energy efficiency, heating thermostats and condensation, £9k worth of energy trust fund applications have been made to help with energy bills.
   b. Invested an additional £200k in electrical testing (compared to 2015/16), delivering testing and upgrades to an additional 590 homes. This incorporated an enhanced specification and fire detection technology in individual customers' homes, reducing false alarms and increasing protection.

c. Employed a dedicated fire safety officer to ensure rigorous inspection of our communal areas and communal fire detection systems.

4. Neighbourly Places – as part of our Neighbourly Places Strategy, our Community Housing Officers now work in smaller patches to get to know our tenants well and ensure they can be actively involved in shaping the services we provide. Their focus will be on building local relationships with tenants and other local organisations to ensure that our neighbourhoods are good places to live.
5. Thrive – Our community space at the new Dewsbury office opened in September 2016 to provide tenants and local residents with both practical help and advice, and enjoyable activities aimed at improving health and wellbeing. We plan to widen the range of services offered and there will be a café on the premises to enhance the Thrive experience.

Plans for the future

1. **Strategic Planning** – The Board have approved the implementation of a new Strategic Planning framework focusing on fewer things that will make the most difference, including a review of Connect's purpose, vision and strategic objectives, in support of a culture of performance.

2. **Governance -** the Association has engaged the services of an independent consultant to review the governance framework, ensuring we are delivering governance efficiently and effectively and in line with best practice.
3. **Asset Management**
    - Boiler installation - proposal to deliver in-house providing substantial cost savings and the opportunity to grow and develop the existing skill base of the in-house maintenance team. This would be the first stepping stone to a comprehensive in-house gas maintenance service to our tenants, where further cost savings would be achieved by taking advantage of the boiler manufacturers extended warranty schemes and VAT savings of energy efficient controls. **This is expected to deliver future savings of £200k per annum.**
    - Void maintenance in-house – Expanding the property services team to deliver void maintenance in house will harness existing capacity within the team, and also deliver VAT savings. Recruitment commenced in Q2 2017 and delivery being implemented by April 2018. **This is expected to deliver future savings of £170k per annum.**
    - Re-tender or bring in-house ground maintenance and cleaning contracts.
    - Continuous improvements with the in-house teams: scheduling of works, material ordering and upskilling our maintenance team is creating capacity

to enable delivery. Within existing headcount we have created additional capacity to deliver £50k worth of labour associated with fire safety works, and external door replacements.
- Active asset management – external surveyors have been commissioned to undertake surveys of 20% of our stock, and this will be supplemented by further data collection from internal surveys.

4. **Technology** – The Association is aiming to complete a procurement exercise (Project Vault) in 2018 for a replacement software solution for housing, Finance and associated business change requirements (including Channel shift / digitisation / a new customer website) in support of the Business Transformation Strategy. The likely investment in this area will be in the region of £1m+ (including staff time), but with forecast savings of £2.8m over a 10-year period.

5. **Staffing**
   - Total Reward review – finalisation of a strategic review of Connect's pay, reward and terms & conditions to ensure we have an objective, market tested approach that ensures greater fairness, transparency and competitiveness across all posts in the recruitment market. Although initially this is likely to increase costs over a transitional period, it aims to ensure we operate a more affordable framework going forward.
   - Promoting Healthy 2017, aiming to **reduce sickness absence by 50%** within 3 years (2016/17 cost - £234k) to improve business efficiency with reduced sickness and agency costs.
   - **Performance management** - Implementation of a new Performance Management framework in support of culture change and business transformation.

5. **Data analysis** - Establish a data analysis based system to evaluate the impact of all support services to inform service improvement, strategy and business planning.

6. **Tenant scrutiny** - Review of Tenant scrutiny to ensure tenants have genuine influence on outcomes, including piloting tenant scrutiny panels, carrying out tenant-led scrutiny reviews.

How the board gains assurance on VFM

Connect's purpose and vision set the direction for the Value for Money Strategy, which in turn helps to inform our business planning cycle. The objectives agreed in the Business Plan annual update are used to inform how we allocate and prioritise resources on new and existing activity. A strong VFM focus (including 2 Board members designated as VFM Strategic Leads and an additional review stage at the Audit & Risk Management Committee) helps to minimise the gap between the objectives the Association wants to achieve and the limited resources available to meet these aims.

Our Value for Money Strategy was updated in September 2017 and is supported by other key strategies including the Risk Management Strategy, Procurement Strategy, the Investment Strategy, the Responsive Repairs Strategy, the Information Management Strategy, the People / Human Resources Strategy and the Business Transformation Strategy. The Association also makes use of the Annual Tenants Report in addition to these strategies to determine how we decide on investment and how we will increase the VFM of services we provide.

Linking to the three overall corporate objectives, Connect's Business Plan aims to deliver affordable quality in homes and services, and Connect's commitment to VFM helps to ensure:

- resources are available to achieve the association's Business Plan objectives and key priorities;
- a balance between cost, quality and performance;
- a high level of customer satisfaction.

Connect remains committed to the delivery of affordable quality in homes and services and keeping affordability centre stage in all its decisions. The Board of Management is confident that the various processes employed provide a robust framework to ensure successful delivery of VFM – see **Appendix C** for further information.

*Further information

Further VFM information including benchmarking information on the cost of key services provided by the Association as well the Association's Value for Money Strategy can be found on the web link noted below**.The 'Dear Prudence' feedback form can also be found here so you can let us have your feedback and thoughts on how we can continue to improve on VFM.

** http://www.connecthousing.org.uk/VFM/ValueforMoney.aspx

Appendix A – Connect's Housemark peer group

Connect subscribe to HouseMark, a business intelligence company, which allows us to compare our cost and performance with other social housing providers.

This year, we have kept our peer group the same, comparing ourselves against 17 other organisations, representing the North & Midland Placeshapers housing associations with between 1000 and 5000 social housing units (including both Supported Housing and Housing for Older People properties). We feel that comparing ourselves to associations who work to the 'Placeshapers' principles (listed on the first page of this VFM self-assessment), in particular putting residents and customers at the center of what we do, gives a fairer comparison in terms of both costs and performance.

The table below provides the names of the organisations within your peer group alongside some key contextual information.

Landlord name	Units managed GN	Units managed HfOP	Units managed GN & HfOP	Adjusted turnover	DLO	Number of standard units developed in the year
Connect Housing (2015/2016)	1,757	751	2,508	16,177,020	Y	36
Arches Housing	1,006	0	1,006	4,956,997	N	32
Black Country Housing Group	1,554	229	1,783	14,832,613	N	27
Bournville Village Trust	3,087	263	3,350	28,502,732	Y	NoData
Endeavour Housing Association	1,881	114	1,995	14,206,367	N	47
Equity Housing Group	2,107	644	2,751	19,398,411	N	110
Four Housing	4,386	124	4,510	25,319,594	Y	20
Joseph Rowntree Housing Trust	1,154	271	1,425	20,488,167	Y	48
Leeds and Yorkshire Housing Association	1,201	76	1,277	5,752,542	N	27
Manningham Housing Association	1,343	0	1,343	8,602,355	N	14
Muir Group Housing Association	3,816	631	4,447	27,848,927	N	73
Pickering and Ferens Homes	0	1,261	1,261	7,133,457	N	0
Pioneer Group	2,254	128	2,382	12,535,276	N	0
South Yorkshire Housing Association	3,708	315	4,023	44,603,678	Y	137
Staffordshire Housing Association	1,902	440	2,342	15,725,855	N	45
Trident Housing Association	1,890	307	2,197	19,073,522	Y	10
Two Castles Housing Association	2,276	522	2,798	16,047,143	N	111
Warrington Housing Association	979	157	1,136	6,019,439	N	0

Please visit this web link to view a PDF of Appendix B

www.connecthousing.org.uk/VFM-AppendixB

Appendix C – How Connect ensures delivery of VFM

Approach	Delivery Vehicle
Governance	
Championing affordable quality as integral to the purpose of the organisation.	▪ Stated in our Vision ▪ Strategic Leads for VFM at Board and Management Team ▪ Tenant Scrutiny / Tenant inspections ▪ Annual assessment of optimum corporate form to achieve objectives.
Championing strategic tenant involvement in the Business Planning process and resource allocation.	▪ Service Improvement Forum ▪ Connect Residents Federation through the Critical Friend Policy, Service Improvement Forum and Board Representatives. ▪ Board members who are also tenants

Best use of assets	
Assessing the opportunity costs of decisions about new supply, improved services and housing stock, and neighbourhood investment	▪ Asset Management strategy ▪ Investment strategy; ▪ Whole life costings; ▪ Asset Management Software (4point2)
Investment decisions are underpinned by a sound business case.	▪ Cost Benefit analysis with supporting business case; ▪ Business Transformation Strategy
Lettings are made having regard to affordability and sustainability.	▪ Affordability assessments at lettings stage to prevent unsustainable lettings.

Service costs and performance	

Budgets are aligned to objectives and priorities, so that there is an effective use of resources.	▪ The Business Planning and budgeting cycle. ▪ Staff and tenant involvement in cycle.
A zero-increase principle to budgeting is used to evaluate the basis of spending, rather than simply uplifting budgets year on year.	▪ Budget pack requires evidence of how the budget has been constructed.
Budget holders have clear accountability and identify and act on excess spend	▪ Monthly and quarterly reports and Board of Management and Management Team scrutiny.
Costs and performance are understood and benchmarked and service areas where high costs are combined with average or poor performance are targeted for service improvement activity.	▪ Annual and quarterly Housemark benchmarking ▪ HCA Social Housing Cost per unit analysis (SHCPU) ▪ Sector Scorecard pilot member ▪ HQN member ▪ VFM Management group quarterly updates ▪ VFM reviews ▪ VFM register
Income protection measures in place to ensure income lost as a result of Welfare Reform measures is minimised.	▪ Welfare Reform Action Plan ▪ The Business Planning and budgeting cycle ▪ Money Matters (Economic Inclusion) team ▪ Robust rent accounting approach. ▪ Rentsense arrears software
▪ **Tenant Involvement and information**	
Tenant involvement in service design and scrutiny of cost and performance helps achieve VFM because services reflect what tenants want and being held to account ensures continuous improvement.	▪ Involvement in Business Planning update cycle ▪ Involvement in procurement panels and contract review meetings. ▪ Tenant Inspection ▪ Community Priority Fund ▪ Housemark Dashboard on website ▪ Get Connected ▪ Review of performance against local offers

	▪ Tenant Report
Critical sources of intelligence include: - Tenant consultation and feedback - Tenant profiling - Tenant insight via Community Housing Officers	▪ Annual 'What Tenants Want' report ▪ Annual customer profile ▪ Dear Prudence email
▪ **Staff involvement**	
Optimising systems and processes to improve productivity and free staff to add value by: ▪ using IT to streamline processes ▪ engaging staff in improving work processes ▪ providing methods by which staff can make suggestions for improving VFM that are taken seriously	▪ Information Management Strategy ▪ Client-side lead on corporate projects ▪ Dear Prudence email ▪ Catch-up Connect staff forum ▪ Intranet VFM site
▪ **Procurement**	
▪ Sound procurement practices are central to securing VFM ▪ explicitly seeking to obtain best value, assessing cost & quality in tendering ▪ embracing partnering and collective procurement, including considering shared services ▪ involving customers in procurement and monitoring ▪ innovative contract packaging ▪ encouraging 'whole-life' costing in procurement decisions looking at the full, long-term	▪ Connect has a robust Procurement Strategy ▪ Procurement 4 Housing membership ▪ Efficiency North Procurement Club member

impact on costs ▪ Acknowledging that in-sourcing (e.g. bringing a service in-house that is currently contracted out) and outsourcing can both provide better VFM. ▪ including the option to use professional procurement advice as appropriate ▪ addressing issues of probity and equality	

▪ **Partnership working & external funding**	
▪ Collaborative working is increasingly essential to achieve 'more for less' and achieve greater impact in communities.	▪ Involvement in a range of local and regional partnerships. ▪ Neighbourly Places strategy
▪ Attracting additional funding and income can help sustain our 'added value' services.	▪ Tendering pack on the intranet ▪ costed services