
Pickering and Ferens Homes

VALUE FOR MONEY(VFM) REPORT 2018/19

Introduction

The Charity is committed to providing high quality services that represent value for money for its customers and stakeholders. VFM is central to the Charity being able to deliver its mission and goals and is about:

- doing the right things and investing in the right physical and human assets at the right price;
- doing things right through economic, efficient and effective delivery;
- evaluating success, and checking that the right outcomes have been delivered.

Effective management of the Charity's resources enables a healthy generation of surpluses that can be reinvested in both existing and new homes. Strong financial performance also enables access to new loans at an affordable interest rate to support future development plans.

Objectives

The Charity has developed the following VFM objectives:

- Involve Trustees, staff and residents in understanding costs, how they relate to performance and how the Charity compares with others.
- Assess the return on assets and ensure effective procurement and delivery of alternative models and solutions for poor performing assets.
- Deliver cost effective services to residents, at the right level of quality and with particular emphasis being placed on "Digital Services"
- Explore all avenues of improving VFM including using partnership working and alternative methods of service delivery.

VFM Framework and Communication

The Board meets six times a year and as part of the standing agenda items Trustees receive a balanced scorecard performance report together with a Value for Money report. These reports provide assurance that the Charity's strategic service delivery plan is being delivered. In addition, Trustees demonstrate ownership and oversight of VFM activities in the following ways:

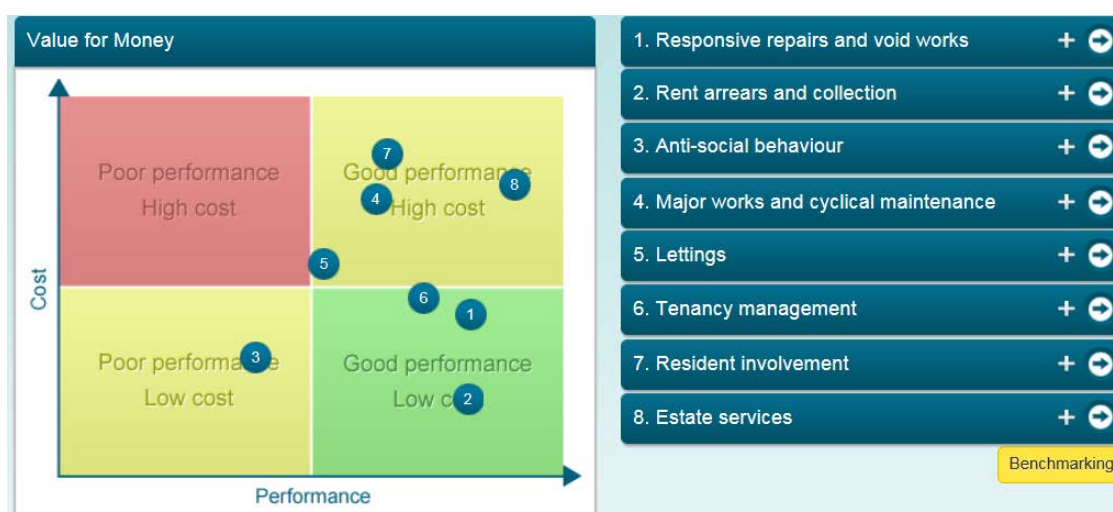
- Approval of the Charity's VFM strategy;
- Approval of all business strategies, plans and actions that underpin the Charity's approach to creating value;
- Consider the VFM implications of key decisions through standardised board reporting templates, where possible considering the costs and benefits of alternative options;
- Agree VFM targets and monitor VFM achievements through regular progress reports to all Board and Audit and Risk Committee meetings;
- Proactively championing a culture of VFM outcomes throughout the Charity;
- Give importance to and assess the social value created through the Charity's activities;
- Approve the reinvestment of VFM gains.

The Charity communicates its VFM achievements to stakeholders in the following ways:

- Through the report of the Trustees in the annual financial statements and through previously published annual self-assessment reports;
- In its periodic newsletter to residents "People First"
- Through its Annual Report to residents which is also distributed to partners and funders
- Through the management team to staff at operational performance, staff and team meetings

Understanding our costs

The Charity carries out benchmark analysis against a number of registered providers delivering similar services. This enables us to assess VFM by comparing core services against cost and performance. We use the latest data set from Housemark, which compares us with other similar organisations; the comparisons that are currently available relate to the 2016-2017 financial year. The graph below shows where our services sit in terms of HouseMark's cost, quality and satisfaction dashboard compared against other providers in our benchmark group.



We use the above data to compare ourselves with others, to identify areas for improvement and to compare performance with previous years to check on our progress. The cluster of measures in the top right quadrant of the graph suggests that although performance is good, it comes at a higher price. Our efficiency plan is designed to reduce costs across most of these headings without having a significant negative impact on performance. Four service areas were considered “good” but with “high costs”. The availability of detailed cost, quality and satisfaction data allows us to explore in more detail how the total cost per property of providing each service is composed, and the impact that the three key cost drivers (pay costs, non-pay costs and overheads) have on service delivery. As the Charity strives to achieve its key goals and objectives, the cost drivers will differ within each of the service delivery areas. High costs and good performing services should therefore not necessarily be perceived as problematic.

Housemark Performance Data

The table below shows the absolute and comparative costs of providing services in comparison to other registered providers in our benchmark group.

	2012-13	2013-14	2014-15	2015-16	2016-17	HouseMark Median 2016-17
Responsive Repairs and Void Works	£741	£716	£853	£787	£730	£727
Major and Cyclical Maintenance	£1,313	£1,436	£1,521	£1,378	£1,521	£1,215
Rent Arrears and collection	£87	£88	£103	£155	£111	£156
Resident Involvement	£193	£195	£213	£182	£135	£72
Anti-Social Behaviour	£20	£18	£17	£39	£50	£64
Lettings	£77	£96	£98	£142	£82	£77
Tenancy Management	£155	£152	£164	£129	£117	£153
Housing Management (Overall)	£531	£548	£596	£647	£494	£562
Estate Services	£279	£264	£269	£284	£375	£216

Although our spend on responsive and void works is close to the median cost in our benchmark group, following the re-procurement of maintenance contracts during 2017-18, we have seen further savings reported in this area of spend (see maintenance cost per unit reported below). However, major and cyclical maintenance costs are high in comparison to peers as we experience the requirement to replace components in a large proportion of homes that were built during the 1990's. The cost to collect rents and arrears has dropped following the introduction of more robust income collection procedures; as a result performance has improved and is better than our benchmark partners. Our resident involvement costs are high but are aligned with our expectations as we address health and well-being initiatives for our customers - who are primarily older persons. The cost of managing anti-social behaviour (ASB) has increased over recent years, but is still below our benchmarking group median. We recognise that our renewed approach to ASB which includes a new policy and procedure, and the introduction of revised reporting and management arrangements have increased associated costs. Levels of ASB reporting as a result of a more clearly defined framework have also increased the number of cases identified and managed. There has been a fall in tenancy and housing management costs, however this was primarily due to the Charity revisiting the allocation of time spent by employees on specific areas of business activity; overall management costs per unit for 2017-18 remains the same as the previous year (see below). Our main cost driver for estate services is the provision of grounds maintenance to residents. Following re-procurement, grounds maintenance service costs have reduced; however other estate service areas which include cleaning, site security and the cost allocated for time spent by internal staff have all contributed to an overall increase in cost. High costs here are representative of the needs of our client group, however we continue to address value for money, and through consultation with residents during 2017-18 we have reduced security and cleaning service requirements.

Value for Money Metrics

The Regulator of Social Housing has introduced a series of VFM metrics that it expects all registered providers to report on from 1 April 2018. We have calculated the Charity's metrics for the last 4 years, forecasted metrics for 2018-19, and have included the sector's benchmark results for 2016-17 which were published in Housemark's Sector Scorecard Analysis Report 2017.

		Reinvest ment In Existing Stock and New Build	New Supply Delivered as a Percentage of total stock owned	Adjusted net leverage / Gearing	EBITDA (MRI) - Interest Cover	Headline social housing cost per unit	Operating Margin - Social Housing lettings	Operating Margin - Overall	Return on capital employed
		Efficiency	Effectiveness	Efficiency	Efficiency	Economy	Efficiency	Efficiency	Efficiency
PFH	Forecast 2018-19	18.30%	4.89%	15.28%	234%	£4,535	14.93%	16.04%	1.67%
	2017-18	12.55%	3.04%	13.26%	470%	£4,105	20.80%	21.69%	2.21%
	2016-17	10.44%	1.36%	5.69%	522%	£4,366	23.22%	24.12%	2.54%
	2015-16	1.32%	0%	5.88%	1375%	£4,248	20.85%	21.24%	2.71%
	2014-15	4.54%	1.22%	9.61%	1421%	£4,255	16.47%	17.11%	2.10%
SECTOR	Q3 or Upper Quartile 2016-17		2.21%	54.05%	301%	£4,371	37.43%	35.91%	5.32%
	Median 2016-17		1.10%	41.60%	228%	£3,306	31.56%	30.28%	4.00%
	Q1 or Lower Quartile 2016-17		0.16%	30.78%	166%	£2,865	24.26%	22.48%	3.03%

Breakdown of Headline Social Housing Cost Per Unit

		Headline Social Housing Cost per Unit	Management Cost per Unit	Service Cost Per Unit	Maintenance Cost per Unit	Major Repairs Cost per Unit	Other Social Housing Costs per Unit
PFH	2017-18	£4,105	£1,288	£1,029	£855	£871	£62
	2016-17	£4,366	£1,256	£1,055	£966	£990	£99
	2015-16	£4,248	£1,366	£973	£950	£868	£91
	2014-15	£4,255	£1,356	£806	£1,082	£914	£97
SECTOR	Q3 or Upper Quartile 2016-17	£4,371	£1,151	£555	£1,113	£962	£535
	Median 2016-17	£3,306	£948	£334	£923	£693	£180
	Q1 or Lower Quartile 2016-17	£2,865	£719	£219	£763	£438	£68

Value for Money Metrics - Analysis Commentary for 2017-18:

Reinvestment in Existing Stock and New Build:

The Charity: The increase in this indicator reflects the significant capital investment in our existing homes and our new build programme over the last two years. The Sector: The Regulator is keen to see providers invest in their existing homes through well thought out capital investment programmes and building new properties.

New Supply Delivered as % of stock owned

The Charity: Our development programme of 122 new homes at Hawthorn and Newbridge has clearly had a positive impact on this indicator as the number of new homes that we have built represents a significant proportion of all of our stock. The Sector: The Regulator, through Homes England wishes to see all HAs having an active development programme to support the need for housing growth. The size of growth will relate to an organisation's financial capacity and be relative to size.

Adjusted Net Gearing

The Charity: Our gearing increased significantly following the new bond finance raised for our development programme; however in comparison to the sector we have very low gearing and ample security for new borrowing. The Sector: As well as recording higher median development rates as a % of stock, associations managing more than 5,000 properties also tend to record higher gearing ratios. The regulator is seeking to ensure organisation's optimise their borrowing capacity (whilst managing risk) to support growth.

Interest cover - EBITDA (MRI)

The Charity: Our interest cover is relatively low due to our low level of gearing; this indicator shows how many times we can pay our loan interest obligations (i.e. 4.7 times) out of "earnings". The dip against last year is due to a lower operating surplus generated in 2017- 2018. The Sector: Higher interest cover has some correlation with lower gearing, but there are no specific types / size of housing association that recorded either higher or lower interest cover rates.

Headline Social Housing Cost per unit

The Charity: Our efficiency plan savings are reflected in the improvements recorded against this metric for 2017-18. Although still high when compared against the sector, it is an ongoing challenge to reduce costs primarily due to the nature of our client group and the level of service that we deliver. We also have some operating costs, for example insurance premiums, that are significantly high in comparison to peers and have a negative impact on this performance metric. The Sector: Landlords based in London and those with comparatively high proportions of Supported Housing and Housing for Older People stock tended to record high costs. PFH needs to consider impacts if it wishes to reduce costs to sector averages.

Operating Margin

The Charity: Operating margin is a measure of business health / profitability. As we are generally a high cost provider, and our increases in turnover are relatively modest, we are less “profitable” than the average housing association. As we invest in new homes and benefit from economies of scale, coupled with a continuous drive to improve efficiencies, we should expect to see improvement in our operating margin in future years. The Sector: Higher operating margins tend to be recorded by associations with a development programme, who manage more than 5,000 units across of a variety of tenures and have leveraged assets.

Return on Capital Employed (ROCE)

The Charity: ROCE is a measure of how well we are using our assets. Our result (2.2%) is lower than the sector median (4%); our lower than average “profits” and possibly our low gearing are also contributing factors here. A combination of cost reductions, future investment in “cheaper” new build (grant subsidised) homes supported by new borrowing should improve this indicator. The Sector: Associations managing over 5,000 units and those with comparatively high gearing tended to record higher ROCE rates.

Using our assets

As at 31 March 2018, the Charity was responsible for the management of 1,316 properties. All properties are located within the city of Kingston upon Hull and the East Riding of Yorkshire. The Charity ensures that it has a detailed understanding of its assets in order to manage them as effectively as possible. To support this process we maintain and are continually developing:

- An Asset and Liabilities Register - providing clear information on all our assets and obligations; and
- An active Asset Management Strategy that supports strategic decisions about the future of stock, which builds on a robust understanding of the return on asset position and the organisation’s plans to move forward.

Key to ensuring that VFM informs the Asset Management Strategy is an effective procurement and contract management approach which is set out in the Charity’s Procurement Strategy. The Charity also undertakes regular monitoring to ensure that it is achieving VFM in relation to its assets. This includes:

- Monitoring financial gearing to ensure optimum use of the value in assets;
- Using stock condition surveys and value based investment models to optimise return on assets and approach to investment;
- Review of efficient use of space and land; and
- Effective monitoring and management of voids.

When programming planned maintenance works, return on investment and value for money forms the basis of the delivery models for each programme. Detailed analysis is undertaken where:

- There is a risk of programme overlap;
- Economies of scale can be found;
- Under-performing properties can be removed or placed later in the programme while option appraisals are undertaken; and
- Repairs data is used to support programming decisions.

We hold stock condition data on all of our property assets, and have recently refreshed our property valuation data to support our longer-term financing requirements. The Charity’s stock has benefited from sustained investment and this is represented through a number of indicators, such as the level of investment required over the next five years (when compared to other year bands over the 30 year investment forecast); in addition the number of non-decent homes has remained at one - an empty bedsit awaiting conversion. We have continued to ensure that:

- Resources that have been dedicated to the stock have been applied effectively and in the right areas;
- Energy performance data is recorded and monitored, and that plans are in place to improve performance ratings where possible;
- The properties are maintained in good order having regard to their age, use and construction;

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- Where replacements are starting to prove necessary, there is a commitment to invest in these areas during the coming years;
 - By undertaking adequate responsive repairs, we consider that the properties have a remaining economic life in excess of 30 years; and
 - As the stock reflects specialist accommodation for which there will be a limited demand in the city, we believe the overall quality of the stock means there should always be strong demand for it.

Observations noted following recent analysis of our stock include:

- Strengths :
 - Mostly modern purpose built stock;
 - Good quality homes;
 - Established schemes which are stable and liked by residents; and
 - Properties are well cared for.
- Weaknesses:
 - An ongoing commitment to cyclical replacements;
 - Older purpose built stock is of an age where replacements are starting to prove necessary and there will be a continuing commitment in this respect in the coming years;
 - 100% accommodation for older people; and
 - Some traditional almshouse bungalows provide cramped accommodation.

The Charity's Asset Management Strategy describes the framework within which decisions are made about investment in housing stock. During the year we reviewed our plans to ensure that we continue to:

- Keep dwellings in best condition, in the most cost effective way;
- Bring properties up-to-date and in line with current and projected customer expectations and demand;
- Reflect neighbourhood issues; and
- Maintain a balance between responsive, cyclical and capital investment.

The Charity's return on asset model allows the organisation to grade its properties both financially and socially and uses the data to drive investment and disinvestment decisions. The model calculates the return on asset by assessing all stock by scheme, identifying those that are not cost efficient in their current use, and which may require reconfiguration or disposal - enabling the Charity to maximise the return on overall investment of the business. By using a return on asset approach we identify stock that is sustainable and provides long-term VFM, while reducing risk within our portfolio. The model compares the necessary costs to keep the stock up to standard, against the income from the same properties, over a long-term (30 year) period. This is known as the Net Present Value (NPV). The NPV is then combined with other information on the popularity and performance of schemes to provide an overall assessment of the stock value and return. The results of this process are detailed in our asset management strategy, which is shared with the Trustees, and helps determine the most appropriate strategic decisions: i.e. to maintain, invest and improve, or to replace our properties.

Social Value

Under the Social Value Act 2012, we consider the Social Return on Investment (SRoI) across our activities. We continue to use bespoke tools and methodologies (e.g. the Housing Association Charitable Trust's model (HACT)) that enable us to measure the SRoI of specific plans and projects undertaken by the Charity. During the year residents took part in a number of events and activities that met with the Charity's goals and ambitions to encourage social interaction and reduce loneliness and isolation. Through the City of Culture's "Our Lives.Our Hull" exhibition, approximately 300 of our residents were provided an opportunity to tell their life stories through different types of art; the association was able to draw from £153k of funding that was made available for 29 different community projects. The Charity was also able to commission artists to lead a number of workshops enabling residents to learn new skills. The Big Elastic Band initiative saw around 20 residents brought together through music which included performances at Hull City Hall. The Charity also led a Morning Chorus (flash mob) activity at the city's railway station, with residents, staff and the general public participating. We also worked with residents to take part in "Hull's Got Talent 55+" that culminated in a showcase at the Britannia Royal Station Hotel. During the year the Charity also introduced its PAVE (Positive Ageing Volunteer Experiences) volunteer programme providing opportunities to residents to share their skills, knowledge and experience with other residents. During 2018-19 we plan to build on the success of the "Big Elastic Band" and we plan to work with the two local rugby league teams on "Reminiscence of the Past" events with our residents.

Improvements made and plans for the future

During 2017-18 the Charity has continued to be actively engaged in procurement activities particularly in relation to property maintenance contracts and legal and insurance services. We have achieved nearly £85k of savings during the year by:

- Re-procuring energy contracts and changing lighting installations at sheltered housing schemes;
- Reviewing the provision of invoices by requesting that key contractors provide electronic invoices / data;
- Changing historic practices in relation to the provision of sheds to residents;
- Ceasing external cleaning contracts and employing our own cleaning workforce; and by
- Training our own staff to complete energy performance certificates.

In addition we have recorded over £12k of savings by reviewing the provision of legal services, training staff to self-fit adaptation / hard of hearing safety products for residents, and by reviewing the provision of cleaning products. The Charity has also received notification from consortium partners confirming savings of over £37k through procurement activities.

The Charity continues to be supported by both government grants to build new homes and by the HM Treasury through the provision of housing benefit payments to its residents. During the year the Charity completed 39 new homes at Hawthorn and Newbridge and converted two bedsits into a modern 2-bedroomed home. This investment in new and existing homes was supported by social housing grant, long-term bond finance and the reinvestment of historic surpluses.

Having an operating surplus each year is important as surpluses are used to fund activities that meet the Charity's business plan mission and goals. During 2018-19 historic surpluses will be used in particular to support:

- the maintenance and improvement of existing homes based on the outputs from the stock condition survey and in line with our Asset Management Strategy;
- new developments to meet the demand for the Charity's properties and provide extra income for the Charity;
- the reduction of capital finance through loan repayments;
- development of the Charity's goals around delivering better neighbourhoods and communities and promoting independent living and choice.
- Investment in IT (Agile working)

Our VFM Plan for 2018-19 includes a number of key VFM initiatives. In the main these will be achieved through a small number of projects which include:

- Procurement
- Remote working for frontline staff (Agile IT)
- Review the use of pop in centres / conversion to lettable dwellings
- Source revenue grant funding (property adaptations and resident welfare initiatives)

Although we expect the above projects to deliver VFM, the Charity also has plans in place to invest in IT infrastructure and digital solutions. Forecasted VFM Metrics for 2018-19 (see table above) indicate a reduction in operating margins, interest cover and return on capital employed as a result of this investment. We continue to invest in new and existing homes and forecast improvements to the capital investment metrics. Adjusted gearing is forecasted to increase as we net off less cash at the end of the year; however gearing continues to remain low, as there are no plans to introduce new borrowing in the year.

Procurement

Our key objective with regard to procurement is to achieve savings and improve the level of service provided to our customer by reviewing key areas of spend. Areas due to be re-procured during 2018-19 include: boiler, kitchen and bathroom supply and installation, and our gas servicing and repairs contracts. In addition we will continue with our window and door replacement programme and our painting programme (where approximate savings are expected to be £86k in 2018/19)

Remote Working

We plan to improve remote working and achieve time and cost savings through better use of our IT systems, particularly in relation to improved remote access for staff, contractors and customers. Key areas for remote working are housing and property services staff (property surveys, resident applications, repairs order placement), contractors (repairs order management and performance monitoring) and residents (improved self-service facilities – rent account management, repairs orders, application status)

Conversion of Pop In Centres

We have undertaken a review of our pop-in centres and have identified sites where the Charity would achieve better value for money by converting under-utilised pop-ins to habitable dwellings. Our key objective is to generate additional rental income and achieve long term savings by removing expenditure associated with the running of pop-in centres. This will require an element of capital investment to convert appropriate pop-ins into habitable dwellings. In the long-term the investment will provide a positive return on capital that is currently not being achieved. Following an extensive review, we have identified two pop-in centres that we propose to convert into two 2-bedroomed dwellings. We expect a payback period of between 6 and 7 years based on anticipated capital costs of £135k, rental income of £10k pa and removal of running costs of £12k per annum.

Attracting Grant Funding

Our key objective is to increase revenue grant funding to support internal budget spend requirements - enhancing staff training, health and well-being initiatives for our residents and the investment in disabled facilities adaptations to our properties. Disabled Facilities Grants (DFG) – We anticipate receiving £78k in adaptation grant during 2018-19. The local council has awarded over £450k towards our property adaptations over the last 5 years, and wish to continue to tap into this significant source of funding for residents. Other Grants – We are training a member of staff to apply for grant funding, particularly in relation to our health and well-being aspirations. When funding becomes available we will assess how this fits with our corporate objectives and bid as appropriate.