**mhs homes Group**

# Value for money statement 2016

Index

## 1. Overview

**Why a value for money report?**

The Homes and Communities Agency, which regulates housing associations, requires a value for money self-assessment report to be produced annually. However it is also essential that both mhs homes and Heart of Medway can demonstrate that it meets its customer's expectations that they are well run and efficient organisations. The review should be across all areas of the Association's activities, including both operational matters and assets. It should reflect:-

- both the association's social mission and the interests of stakeholders
- how the standard is being met
- financial and social performance

The report should also enable stakeholders

- to understand the return on assets measured against objectives
- include absolute and comparative costs for specific services, and
- Evidence value for money gains that have been made and how they will be realised over time.

This report will cover the whole of the mhs homes group ("the group") including Heart of Medway (HOM), our registered subsidiary. Where mhs homes limited (mhs homes) is considered separately this will be noted. It will consider:-

- Our approach to value for money
- Our track record in 2016
- How we understand our costs
- Our social value return on assets
- Our environmental return on assets
- Future Value for Money works

Where appropriate HoM will be considered separately but as its services and funding are provided by mhs homes in most areas there two organisations will be considered together.

Finally the report will conclude how successful we feel the group have been in achieving value for money.

**Structure of mhs homes group**

The group supplies social housing to the Medway and surrounding areas through mhs homes (an unregistered housing association) and its subsidiary HoM (a registered housing association). During the year all new social housing properties have been acquired or developed in HoM, and this has been funded through support from mhs homes. Over the history of HoM this support has been delivered either by a inter company loan or gift aid payments from mhs homes. During 2015/16 the support for the 142 new social housing brought into management in the year in HoM, and the overall spend on development of £21 million, came through a combination of intercompany lending (£6.8 million), gift aid (£14.8 million) with the balance though surpluses generated by Heart of Medway.

mhs homes funded the support for Heart of Medway, along with the £7m mhs spent on market rent properties, through surpluses generated from day to day activities and external borrowings. Overall the group spent £28 million on new developments primarily funded by the group surpluses with only £9 million of additional new debt.

## 2. Our Approach to Value for Money

### What mhs homes group aims to do

The group goal is to be "The best housing provider in Kent". The objectives of the strategy that delivers this goal are to:-

- Deliver great services
- Provide quality homes
- Help our customers achieve their potential
- Be financially fit and lean
- To have exceptional and diverse talent

### Our approach to value for money

The 2015 – 2018 strategic plan includes challenging targets for efficiency, cost control and customer service. As part of the corporate plan process the Board consider detailed budget information and performance information along with customer satisfaction data. As a result of the information available the Board and Executive team are able to better understand and influence the costs and outcomes for each service area. This is used to guide a lean management programme (a process of improving efficiency, both in time and expenditure, whilst improving our service to the customer) that has been on-going for the last 24 months, and is being embedded in the culture so it becomes part of the organisation's DNA. Reports provided to our board describe the projects identified for the year ahead and allow the Board to influence and direct these decisions.

There are established policies and arrangements at mhs homes for ensuring that value for money is being obtained.

- The Strategic Plan sets challenging targets on both cost reduction and operating margins. The Board has a keen interest in seeing Value for Money delivered and reviews an annual report.
- The Board agree and monitor our annual budget, with detailed work taking place in the Finance Risk and Audit Committee. Budgets are monitored monthly through management account meetings with all key variances being reported to the Board and Executive Team. mhs homes group checks annually the on-going viability of the actual and budgeted levels of spend together with any plans for future development into the next 30 years.
- There is an annual programme of investment in the housing stock which is based on a 30 year stock investment plan for replacing building

components such as windows, roofs, kitchens, bathrooms etc. mhs homes group policy is that on-going and timely investment in the condition and quality of its housing is fundamental to maintaining the physical asset and the public investment in mhs homes 'social housing. Our asset management strategy explicitly confirms the aim to be at 100% decent homes standard by March 2016 at the latest, with the current position at 96%.

- Intrinsically linked to the Asset Management Strategy is our approach to active asset management in which every property has been reviewed for maintenance costs (both past and future), income, ease of relet and management considerations.
- An annual budget is available for estate improvements. This investment is often identified through local offers based on discussions with our customers. Together these programmes help to maintain the overall look of the housing stock and, we believe, that by investing in estate improvements residents are more likely to be proud of and respect their property and surroundings; we think this will result in more cohesive communities and better neighbourhoods.
- There is a comprehensive and regularly reviewed Procurement Strategy that sets out the rules on quotes, tenders and approval of new contracts. Where possible supply chains are consolidated to provide greater scope for efficiency and reducing costs.
- Distribution of detailed service charge accounts to all leaseholders.
- Value for money is discussed in 1-2-1's and all appraisals with staff.
- Our annual report to tenants, which includes performance and cost information.
- The customer scrutiny panel have commissioned Campbell Tickell to carry out service reviews and based on these reports recommendations will be made to the Board.
- A set of assumptions agreed by the Board is applied when appraising new development schemes. The financial impact of a new development scheme on the overall business plan is considered by the Board before it commences.
- The staff are, in many ways our most important asset. We pay at the median quartile level based on regular salary benchmarking reviews, the most recent of which took place in 2013/14 with the next programmed for 2015/16. We monitor staff turnover and, though the use of exit interviews and staff surveys, review how best we can provide an excellent working environment to enable staff to deliver superb customer service. mhs homes successfully retained its IIP gold status in 2014/15.
- In order to achieve value for money the Board and Executive team must be focused on having the right people and the right level of human resource to provide the right level of service at the right cost. This involves ensuring staff are properly trained to do their work and providing staff with the right resources to enable them to carry out their roles.
- mhs homes group has an IT system which provides a cost effective way of providing many essential functions, including KPI reporting, rent accounting, financial accounting, and repairs. These systems allow us to report and monitor our performance.

## 3. Our track record over the year to 31 March 2016

The group Strategic Plan sets a number of targets that include value for money, new units developed and improved customers' satisfaction. The target for 2015\16 was to make £300,000 savings. However this was before the July 2015 Budget that imposed rent reductions on the regulated sector. mhs homes, not being regulated had a freedom of action not available to the most housing associations, but decided to freeze rents in keeping with the government's aims of limiting the increase in Housing Benefit. However this would mean that without a reduction of costs our development plan would become unaffordable, leading to a significant reduction in much needed new housing.

The Board therefore considered the options available to it, and concluded that the development programme of 600 units between 2015\6 and 2017\18 should be maintained. Therefore savings of £2.27 million were identified that maintained our development programme. These were presented to the Board in November and agreed. These savings are noted below.

| | | Saving £'000 |
|---|---|---|
| 1 | Reduction in payments to mhs Community Charity | 150 |
| 2 | Asset Management -increase asset life | |
| 2a | Kitchens: from 20 to 22 | 110 |
| 2b | Bathrooms : from 30 to 31 | 80 |
| 2c | Boilers : from 15 to 17 | 220 |
| 3 | Reduction in Aids and Adaptations expenditure | 150 |
| 4 | Environmental improvements | 25 |
| 5 | Reduction in Assisted Decorations and Gardening | 25 |
| 6 | Break interest rates | 250 |
| 7 | Reduction in training budget | 60 |
| 8 | Reduction in responsive repair costs through efficiencies without any dilution of offer to customers | 210 |
| 9 | Removal of internal auditor contract | 30 |
| 10 | Reduction in Staffing Costs | 345 |
| | **Total** | **1,655** |
| | Operational Savings | 613 |
| | **Total Savings** | **2,268** |

Some of these savings had already taken place in 2015\16 and some are identified for 2016\17. Overall these savings represented almost 8% of turnover.

The operational savings came from a number of areas that were identified during the year through efficiency and procurement savings. These are considered in detail below

**Efficiency & Procurement Savings**

Key within the above savings are those operational efficiencies. These are identified through a number of mechanisms. :-

- Lean reviews - which are discussed in detail below
- Budget Setting - which involves setting target for cost reductions
- A challenging and rigorous procurement process
- The strategic plan - which is linked to reducing our total cost per unit and improving our operating margins

These savings are all cash based and reflect bottom line reductions, though the saving may have been utilised to fund another project or service.

| **Area** | **Saving £'000** |
|---|---|
| Reduction in costs for Kitchen and bathrooms | 200,000 |
| Reduction in average void costs per property | 90,000 |
| Reduction in relet time per property from 20 to 14 days | 60,000 |
| Relocating mhs express to Head Office | 22,000 |
| Increased Efficiency in mhs direct leading to reduced use of subcontractors | 37,000 |
| Reduced use of agency staff | 84,000 |
| Increased use of Broadside | 80,000 |
| Reduction in Printing and photocopying | 40,000 |
| **Total** | **613,000** |

The main purpose of these savings has been to maintain our development programme after our anticipated income has reduced following the July 2015 budget. As well as maintaining our development programme these savings have been used in a number of ways including:-

- Reinvested back into our customers' services, for example 2015\16 has seen the addition of web chat to our customer's ability to contact us.
- Investing in new technology that allows our staff to be mobile and spend more time with our customers.
- Resourcing the customer investment strategy (explained in further detail later in the paper) where the Board has committed £200,000 between 2015/16 and 2017/18.

**Lean Reviews**

In late 2012 mhs homes embarked on a Lean implementation programme with sponsorship from the Group Board. This included service reviews of relatively high corporate profiles and benefits that were relatively quick to release. We have continued to see further improvements in these areas. Lean Foundations to support change within the organisation were introduced including Lean for Leaders training, lean induction training for all new starters along with master scheduling, introduction of information centres and development of a new approach to performance measures.

Each phase of lean activity commences with a brief diagnostic review canvassing the views of the Executive Team and managers, combined with performance analysis. A range of possible reviews are identified and placed on a matrix showing scale of service improvement and potential savings. A prioritised approach was established and agreed with the Executive Team.

Three categories of savings/additional income were defined:

**Identified**: Theoretical savings identified as part of the data analysis, current state mapping and re-design workshop

**Realised**: Process changes made and the expected time, material savings or increased income have been realised.

**Cashed**: When the actual structural changes, reduced expenditure or increased income hits the accounts

**Voids**

The Voids review contributed to savings of £176,210 in 2014/15. Reductions in key to key period have further reduced in 2015/16 as the lean methodologies have been sustained resulting in a further £19,950 in savings. Average 'key to key' periods for voids classed as standard re-lets and for those included major works have decreased. Standard relets have decreased from an average of 15 to 10 days. All re-lets, including those in major works have similarly decreased from an average of 17 to 14 days. This has been achieved through close working between teams responsible for the re-letting and the repairs and maintenance of our properties through the re-letting process. This has been assisted through a clear lettings standard, advance notice and planning for anticipated properties becoming vacant (void), more cost effective decoration package for customers in most need along with good resource management and prioritisation of properties according to customer demand.

**Repairs**

The Repairs review has achieved £80,141 in cashable savings during 2014/15. These were achieved through a range of activities. Ensuring customers are provided with correct and timely information has resulted in customers not needing to telephone our Customer Service Centre for clarification. A reduction in these 'failure demand' calls of 14% has resulted in a time saving of 610 hours, equivalent to 0.45 WTE[1] (£6,229). Removing a customer signature step from the end of a repair process saved 30 seconds per repair, totalling 175 hours. This was equivalent to 0.13 WTE (£2,275). An initial saving from a change to the approach for Emergency Call Out resulted in a 24% reduction in follow on works when compared to the original position and a reduction of 701 ECO jobs. When all associated out of hours payments, time to complete additional works along with travel costs/time and administrative support time were added, savings equivalent to £25,328 have been achieved. Continuous improvement in this area has the potential to yield further savings in the future.

Prior to the lean review any repair job cancelled by a customer or a request to book a job outside of the 'target period' that was previously in place required authorisation and could not be completed at the first point of contact with the customer. These were considered un-necessary 'hand offs' to other colleagues. Removal resulted in a saving of 52.5 hours per annum, totalling £1,222 efficiency saving.

A change in philosophy relating to repairs appointments took place, removing arbitrary target periods enabling more customer choice and discretion awarded to our Operatives to extend their time at a property to complete works at the first visit to minimise customer disruption. This, along with the reduction in the follow on jobs previously generated through Emergency Call Outs brought greater capacity to the repairs diary resulting in more jobs being completed by our Direct Labour Organisation rather than sub contractors at additional cost. This resulted in a saving of £45,087.

**Invoicing**

This review contributed to the realisation of £7,990 efficiency savings. These savings, whilst realised will not be cashed as the time is re-invested into team activities. Prior to the review the percentage of invoices paid within contract terms were below 70%. The lean review assisted with the introduction of a series of changes to a largely manual process with improved visibility along with clearer automated management reporting. There were three key elements – reduction in supplier queries to the Purchase Ledger Team (i.e. chasing payments), reduction in internal queries from Purchase Ledger Team to Departments, and finally reduction in duplicate invoices requested by the Purchase Ledger Team to suppliers. Collectively this represented an organisational time saving of 515 hours (£7,957) plus £33 in reduced telephone call charges.

[1] WTE – Whole Time Equivalent

**Recruitment**
Savings of £120,111 were cashed during 2014/15 (including initial agency fee reductions). In addition to the continued reduction in agency staff in 2015/16 (£84,000 reported separately), there were further savings of £2,285 relating to staff time saved through better synchronisation between recruitment administration activities. The removal of time spent duplicating candidate information and Equality & Diversity information across different stand alone spreadsheets and forms was achieved through hyperlinked data. This was equivalent to a saving of 108 hours over six months. A candidate pool was also introduced particularly for higher volume recruitment activity such as Customer Service Advisers allowing successful candidates to be held pending future vacancies to reduce lead in time to appointment. Due to the relatively short lead in time experienced to date, no savings have been calculated for this during 2015/16. It is recommended that this is monitored in 2016/17. The introduction of e-recruitment also originated from this lean review. Savings analysis following the introduction of the new system in March 2016 should be completed by the end of 2016/17.

**Investment**
Improved customer information similarly reduced the number of customer calls to the Investment Team relating to major and cyclical works during 2015/16, equivalent to a 21% call reduction for the Customer Service Centre (976 calls over 7 months) saving 92 staff hours (£997). There were also fewer calls passed to the Investment Team, equivalent to 45 hours, £760 in staff time. Changes to the operating procedures by Medway Council for DFG Assessments resulted in a proportion of the activities currently co-ordinated by mhs homes were taken on by the Council's sub-contractors saving mhs homes administrative time and costs associated with correspondence of £3,786. The time saving has been re-allocated to project co-ordination of other projects, helping to facilitate savings within the restructure.

The procedure for approval of property disposals was developed within this lean review. Whilst not counted as part of the lean savings, this delivered additional income for mhs homes through the removal of these uneconomic assets.

**Development**
A mini review looking at the allocation and monitoring of defect jobs on new build properties. Automated reporting was built to provide greater insight. As a result there has been a small saving through a reduction in defect rate and removal of inappropriately allocated repair jobs totalling £311; £244 of which is reduced revenue expenditure, £67 time saving.

**Sheltered**
A mini review to develop standardised documentation to facilitate a more agile team of Sheltered Support Officers. The aim was to enable the team to become less reliant on having to return to the main office to type up and print documentation supporting the care of residents through the provision of documentation they could use on mobile devices with direct input. As a result of this, savings were made through the combination of two types of customer assessments into a single visit, saving administration, appointment and journey times along with fuel costs (£1,357). Administrative savings were achieved

through the review and standardisation of work processes to a more mobile approach equivalent to £6,074. Checks to pull cords are now completed quarterly, with a time saving equivalent to £2,329 per annum.

**Income**

Campaigns through 2015/16 encouraging customers to switch to Direct Debit to pay their rent have resulted in a reduction of 6,004 All pay transactions (average cost £0.51 each) and an increase of 5,356 Direct Debit payments (average cost £0.15 each). This provides a transaction cost saving to mhs homes of £2,259.

## 4. Understanding Our Costs ( to be updated when final results are available)

In this section the costs of mhs homes group will be looked at in a number of ways to confirm value for money. Firstly the return on each asset group will be considered, then evidence of how efficiency has improved and finally compared to the sector to demonstrate that costs are lower than average.

### Financial return on assets

Financial return on assets is also improving as shown below:

| | Net Cost of Asset* £'m | Income £'000 | Surplus £'000 | 2015/16 Return on investment % | 2014/15 Return on investment % |
|---|---|---|---|---|---|
| **mhs homes limited** | | | | | |
| General Needs | 105 | 41.1 | 19.3 | 18% | 17% |
| Shared Ownership | 2 | 0.1 | 0.1 | 3% | 3% |
| Market Rented** | 22 | 1.6 | 0.9 | 4% | 2% |
| Heart of Medway | | | | | |
| General Needs | 31.1 | 1.7 | 0.7 | 2% | 2% |
| Shared Ownership | 9.6 | 0.4 | 0.3 | 3% | 1% |

** Being based on Historical cost (before deemed cost adjustment) net of depreciation and Social Housing Grant*

*** After adjusting for deprecation to ensure comparability with other income streams*

The high return on general needs stock reflects the purchase of the stock 25 years ago. The increasing efficiency in **mhs homes** reflects both the increase in rental values in the area (for market rent) and efficiency of the organisation.

### Improving Efficiency

Evidence of how seriously value for money is taken is the margin of the group over its recent past as it demonstrates a trend of improving efficiency.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| | Under old GAAAP | | | | Under New GAAP | |
| Operating Margin % | 28% | 35% | 32% | 26% | 43% | 45% |
| Operating Surplus £'m | 11.4 | 14.9 | 15.4 | 12.4 | 20.6 | 23.5 |

This is more noticeable if the core margin from day to day activities, calculated by adjusting for depreciation, major and planned repair, is analysed. The margin improves year on year until 2014 when a number of one off costs (including a stock condition survey and staff reorganisations) led to a fall in the margin. This year the margin increased back to and beyond that achieved in 2013. The strategic plan for 2015 – 2018 sets a target of 60%.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Core Margin % | 52% | 54% | 57% | 50% | 59% | 64% |

The total cost per unit across mhs homes group has remained constant over the last couple of years, with the exception of the increase referred to above in 2013/14; showing inflationary increases have been offset by savings. The strategic plan for 2015 – 2018 sets the target of no increases from 2015 onwards.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Cost per unit | 2,105 | 2,111 | 2,114 | 2,277 | 2,074 | 1,747 |

Our void loss key indicators continue to show year on year improvements, whilst despite the changes in welfare benefits and the difficult economic climate the level of bad debt stays steady.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Void Loss – General Housing | 1.1% | 1.0% | 0.9% | 0.8% | 0.4% | 0.4% |
| Void Loss – Sheltered Housing | 10.7% | 6.6% | 4.3% | 2.3% | 1.9% | 0.5% |
| Bad Debt - overall | 1.1% | 0.7% | 1.0% | 1.1% | 0.8% | 0.9% |

This increased efficiency has allowed us to invest more in new developments, as shown below with both a record amount of investment in 2016 and a delivery pipeline forecast in 2016/17 of 423 properties.

| | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|
| Units Developed | 122 | 131 | 148 | 70 | 126 | 157 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Expenditure on new properties | £16.5m | £13.7m | £11.9m | £11.7m | £24.6m | £27.7 |

**Comparing with others**

We use two methods of comparing mhs homes group performance with others. Firstly Housemark and secondly use of the sector's global accounts summary as produced by the Homes and Community Agency.

**Housemark**
mhs homes limited regularly benchmarks its operating costs against other social housing providers. Benchmark data is obtained via Housemark, a national club of housing associations. These results are issued in the autumn of the following year so the comparison below are all for the year 2014\15. Where mhs homes costs appear to be significantly different from similar organisations then further investigations are undertaken to identify the underlying reasons and if savings can be obtained as a result of delivering the service more efficiently then actions are taken to reduce operating costs either through a lean or team review. Some of the other key results for 2014\15 have been summarised below and the comparison as are against a group of other similar organisations. The organisations we are benchmarked against are shown in appendix 2.

| | | **mhs homes results** | | |
|---|---|---|---|---|
| **Area** | **Description** | **Result 14/15** | **Ranking 2014/15** | **Ranking 2013/14** |
| Financial Strength | Operating Margin excluding gift aid | 43% | **Q1** | **Q3** |
| | | | | |
| Repairs | Major Repairs total cost per property | £1,425 | **Q3** | **Q2** |
| | Responsive Repairs & void works total cost per property | £681 | **Q1** | **Q2** |
| | Cyclical Repairs total cost per property | £476 | **Q4** | **Q4** |
| | | | | |
| Housing management | Total cost per property | £372 | **Q2** | **Q3** |
| | Total arrears as a % of rent due | 3.26% | **Q3** | **Q3** |
| | Rent Loss due to voids | 0.3% | **Q1** | **Q2** |
| | Average relet times | 28 days | **Q1** | **Q3** |
| | | | | |
| Overheads | Overhead costs as a % of turnover | 11.3% | **Q3** | **Q3** |
| **Q1: Top quartile** | **Q2 2nd Quartile** | **Q3 3rd Quartile** | **Q4 Bottom Quartile** | |

**Financial Strength**

The operating margin increased significantly during the year, though this was expected with a number of one off costs such as a stock condition survey and additional investment in properties during 2013\14. We are confident with all that has been achieved in the current year that we will maintain this position.

**Maintenance**

Responsive repairs costs improved year on year through a combination of factors, but mainly around increased emphasis on procurement and review of working practices. The latter resulted in our DLO completing more jobs, therefore reducing our reliance on sub contractors and therefore our costs.

As at the end of March 2016 we had 91.4% of customers were satisfied, putting us between lower quartile and median.

Major repair costs are determined by the asset management strategy, which in turn is informed through a stock condition survey that took place in 2013. This information as refreshed and reviewed As at March 2016 the housing stock is 100% compliant with decent homes standard, therefore giving confidence that the investment into our current properties is both costs effective and of sufficient to properly maintain the stock.

The Cyclical maintenance costs take place in line with a programme of works, however the current contract completed in December 2015 and is currently being retendered which will confirm if the costs being incurred are competitive.

**Housing Management**

Total cost per property continues to improve as efficiency savings and economies of scale take place. We expect this improvement to continue. This is matched by a significant improvement in void loss and relet times.

Rent arrears are holding steady within the quartile; though do represent an improvement from the rent arrears of 3.99% in the previous year. We see no reason why this improvement shouldn't continue, and as at March 16 rent arrears stood at 3.2%

**Overheads**

Our performance on overheads remains in line with last year. The office costs are particularly expensive, being 4$^{th}$ quartile, and this masks good results in other areas, for example the finance department is comfortably top quartile.

**Global Accounts**

The Home and Community Agency publishes a review if global accounts for 2014/15 that gives an indication of where mhs homes stands in relation to the sector as a whole. The results are compared to the 2015/16 costs for the group, mhs homes and HoM. The group 2014/15 results are also shown for comparison.

The overall results show an organisation comfortably better than the average and showing substantial improvements year on year.

| | **Sector Average 14/15** | **Group 14/15** | **Group 15/16** | **mhs homes 15/16** | **Heart of Medway 15/16** |
|---|---|---|---|---|---|
| Management Cost per unit £ | 1,034 | 523 | 527 | 750 | 340 |
| Maintenance Cost per unit £ | 1,946 | 1,509 | 1,304 | 1,776 | 392 |
| Gross Operating Margin | 28% | 44% | 46% | 47% | 33% |
| EBITDA MRI Margin | 29% | 45% | 49% | 49% | 42% |
| Effective Interest Rate | 4.7% | 5.3% | 5.2% | 5.2% | 0.2% |
| Voids for The year | 1.7% | 0.5% | 0.4% | 0.4% | 0.6% |
| Debt per unit £ | 23,931 | 19,911 | 20,610 | 27,730 | 48,250 |

- Management costs are below the sector average and are expected to stay lower as new developments, not matched by increasing head count, add to the economies of scale. Management costs stayed constant in the year and are expected to reduce next year through savings identified above.
- It is difficult to compare repair costs because of where organisations sit in the repair cycle, for example a recent stock transfer might have a large cost due to significant catch up work. However our properties are at 100% decent homes standard as at March 2016. This combined with a recent 100% external stock condition survey which is used to inform our long term financial plans, gives the confidence that our stock is being maintained to a high standard in a financially efficient environment. The fall in maintenance costs reflect a number of factors
  - Our direct labour force completing more work and thereby using external sub contractors less
  - A fall in the number of properties becoming empty in the year, thereby reducing void costs
  - The proportion of our stock that is new reduces the average repair per property

- The overall group margin is significantly higher than the sector and is forecast to improve due to cost and efficiency targets in the business plan, combined with new units being added without adding to head count or overheads. (Please note that the definition of operating margin differs to that used in "Increasing efficiency"). For the purposes of this exercise the gift aid payment from mhs homes to HoM has been excluded.
- Our average interest costs is forecast to fall as new borrowings takes advantage of the historical low rates available at present and historical fixes fall away.
- The debt per units shows the historical legacy of the borrowings required in the early life of the association for investment in the transfer stock. This figure is increasing as new units are developed. This figure is increasing as new units are developed. Our development plans over the next 4 years will require an average debt of £50,000 per unit.

## 5. Social value return on assets

The Community Investment Strategy looks to support our customers through the welfare reforms and to prepare them for the migration onto Universal Credit. The three principal objectives of the strategy are to:

- Support customers into employment
- Facilitate customers to get online
- Support customers to be better able to manage their household budgets

Underpinning the strategy is a commitment to work in partnership with local organisations, ensuring our customers can access the support they need, when and where they need it. To this effect during 2015\16 we funded a number of local organisations to deliver projects that underpin our Community Investment Strategy.

**Financial Inclusion Update – Target: 500 customers supported with budgeting skills**

| **Financial inclusion measures:** mhs homes customers will: |
|---|
| Be better able to plan their household budgets and apply these skills to monthly budgets in line with new Universal Credit payments. |
| Know the difference between priority and non priority debts and will be more financially resilient. |
| Be less reliant on pay day loans and high interest borrowing. |
| Be supported to open a current account with a high street bank or Credit Union and be confident to manage the account and save. |

We exceeded our original target and managed to provide a financial intervention to 583 customers. Several of these projects have been exemplary, reducing rent arrears by £28,000 and saving customers over £15,000 on their fuel bills.

**Employment Update – Target: Support 50 mhs customers into employment**

| **Employment outcome measures:** mhs homes customers will: |
|---|
| Be supported to move into employment and helped to sustain this employment. |
| Have greater opportunities to engage in work experience programmes and work placements. |
| Improve their employment prospects through skills and training programmes. |
| Increase their confidence and be motivated to move into employment. |

We have met the target to get 50 customers into employment and have managed to surpass this by supporting 90 customers to find work. In addition to the employment outcomes we have arranged work experience opportunities for 48 mhs customers.

**Digital Inclusion – Target: Support 300 customers to get online**

| **Digital Inclusion Measures:** mhs homes customers will: |
|---|
| Have the skills and knowledge to access the internet. |
| Be able to perform online job searches and make successful applications for jobs. |
| Be able to complete online applications and apply for benefits. |
| Know where to access free internet and gain the support they require. |

We met and exceeded our target by supporting 329 people to get online.

**Day for Medway**
In total mhs homes staff volunteered 236 days to support good causes across Medway. These included:-

Food banks
Poppy Appeal
Samaritans
Medway Youth Trust
Local Schools
Kent Wildlife Trust

**Social Return on Investment**
The Community Investment Strategy looks to realise a 3:1 social return on investment (SROI). Using the HACT SROI calculator against a total expenditure of £237,000 we realised over £1.2million of social value, closer to a 5:1 return.

| Activity | Average person value (HACT) | 2015-16 Running Total | Total |
|---|---|---|---|
| Full-time employment | £10,767 | 39 | £419,913 |
| Part-time employment | £5,383 | 16 | £86,128 |
| Apprenticeships | £2,353 | 18 | £42,354 |
| Employment training | £807 | 48 | £38,736 |
| Debt-free | £1,593 | 56* | £89,208 |
| Access to internet | £1,875 | 289 | £541,875 |
| **Total** | | | **£1,218,214** |

In addition to the social return we also benefited from partner match funding equal to £38,100. In addition to this our funding enabled one partner to leverage in an additional £15,000 of grants to run ICT training courses in 2016.

The Community Investment Strategy also supported an organisation providing employment training for people on the autistic spectrum to successfully apply for £7,500 from the National Lottery.

In addition mhs homes own and manage two Foyers which provide supported housing to 33 young people aged under 25. Many of the Foyer residents come from complex backgrounds, often unable to stay within the family home and unable to apply for mainstream housing.

Our Foyers enable and empower the young residents to live independently and with the support of our foyer staff to reconnect with learning, increase their employability, improve their health and wellbeing and develop their potential.

In the last financial year (2015/16):

- 33 young people where provided with safe and secure accommodation
- 6 residents started apprenticeships
- 10 started college courses
- 2 moved into mainstream employment
- 5 participated in training and work experience

The social value generated by these outcomes equates to £320,000

**Environmental return on assets**

A key element of our strategic plan is improved sustainability through a higher SAP rating for our housing stock and a comprehensive Fuel Poverty plan to assist our resident's access to affordable warmth.

Currently the average SAP rating is 66, and our asset management spending plans are based on achieving an average of 70 by March 2018. To help achieve this goal during the year 332 new energy efficient boilers were added during the year

Our asset management strategy includes the target to upgrade our average SAP rating to 70 by 2018. In 2016/17 we will continue to apply for funding for central heating, loft and cavity wall insulation in order to progress this target.

## 6. <u>Future Plans</u>

The strategic plan for 2015 – 2018 sets the target of £900,000 savings over the life of the plan, which will ensure that we meet an operating margin (as defined under improving efficiency) of 60%. This will allow us to meet the challenging development goal of a minimum of 600 new properties by 2018, along with preparing mhs homes for welfare reform and the inevitable increase in interest rates. Our lean management reviews will play a vital role in identifying these savings.

This paper demonstrates that much progress has been made however we will work harder to embed value for money in to the culture of mhs homes, through challenging budgets, on-going lean reviews and revised procurement procedures.

## 7. <u>Heart of Medway</u>

When HoM is considered on its own then the cost of both financing and managing properties is substantially less than if it had been a stand alone organisation, and therefore it benefits from its relationship with mhs homes group.

## 8. Conclusion

A review against the specific expectation of the Value for Money Standard is contained in Appendix 1 and demonstrates how mhs homes group believes it complies with it.

Value for money is never complete, but always a work in progress. It is clear that good progress has been made in the year but more is to be achieved, especially in areas such as overhead costs and rent arrears. However there is robust evidence that a culture of value for money is present, with targets, monitoring and business planning all incorporating these values.

The efficiencies across the group have allowed both more to be invested in new properties, with a record number of new properties forecast to come into management in 2016/17.

All staff are eligible for a performance bonus, the amount of which depends on meeting a number of targets as set by the Board. No performance bonus will be paid unless the 2016/17 budget is met. There can be no clearer statement of the importance that the Board places on financial discipline than this.

**Appendix 1**

| The specific expectation of the VFM standard | Summary of how mhs homes believes it demonstrates compliance for 2016/17 |
|---|---|
| Have a robust approach to making decisions on the use of resources to deliver the provider's objectives, including an understanding of the trade-offs and opportunity costs of its decisions. | • Reports to the Board on the long term financial business model including stress tests.<br>• The annual budget process includes cost reduction targets for all managers.<br>• The 2015 – 2018 strategic plan agreed by the Board included<br>    ○ targets on increasing efficiency and cost savings<br>    ○ targets on active asset management and this approach is embedded with the Asset Management Strategy<br>• A Design and Building Company was agreed was set up to bring greater financial efficiency to our development programme<br>• A review of our pension arrangements was presented to the Board<br>• There was a review of our Older Persons Housing Strategy |
| Understand the return on its assets, and have a strategy for optimising the future returns on assets – including rigorous appraisal of all potential options for improving VFM including the potential benefits in alternative delivery models - measured against the organisation's purpose and objectives. | • Our stock condition information is based on a 100% external stock condition survey from 2013. This data is updated on an on-going basis by our own surveyors.<br>• The active asset management process included a full review of all properties and identified 118 properties at "red" warranting further examination. Of these:-<br>    ○ Disposal of 2 properties in 2014/15<br>    ○ Disposal of 8 properties in 2015/16<br>    ○ Disposal of a minimum of 2 properties in 2016/17<br>    ○ The other properties are in areas of regeneration and will be redeveloped other the next few years<br>• The "Amber" properties (2547) will be reviewed in the immediate future.<br>• This document considers the overall return on its assets along with social and environmental issues.<br>• The information on which properties are charged to lenders and the amount of available security is regularly reviewed at Board level.<br>• The approval process on new development schemes is linked to the amount of subsidy involved, along with costs, to ensure Board approval is required if it determined that non financial considerations offset a lower return on investment. |

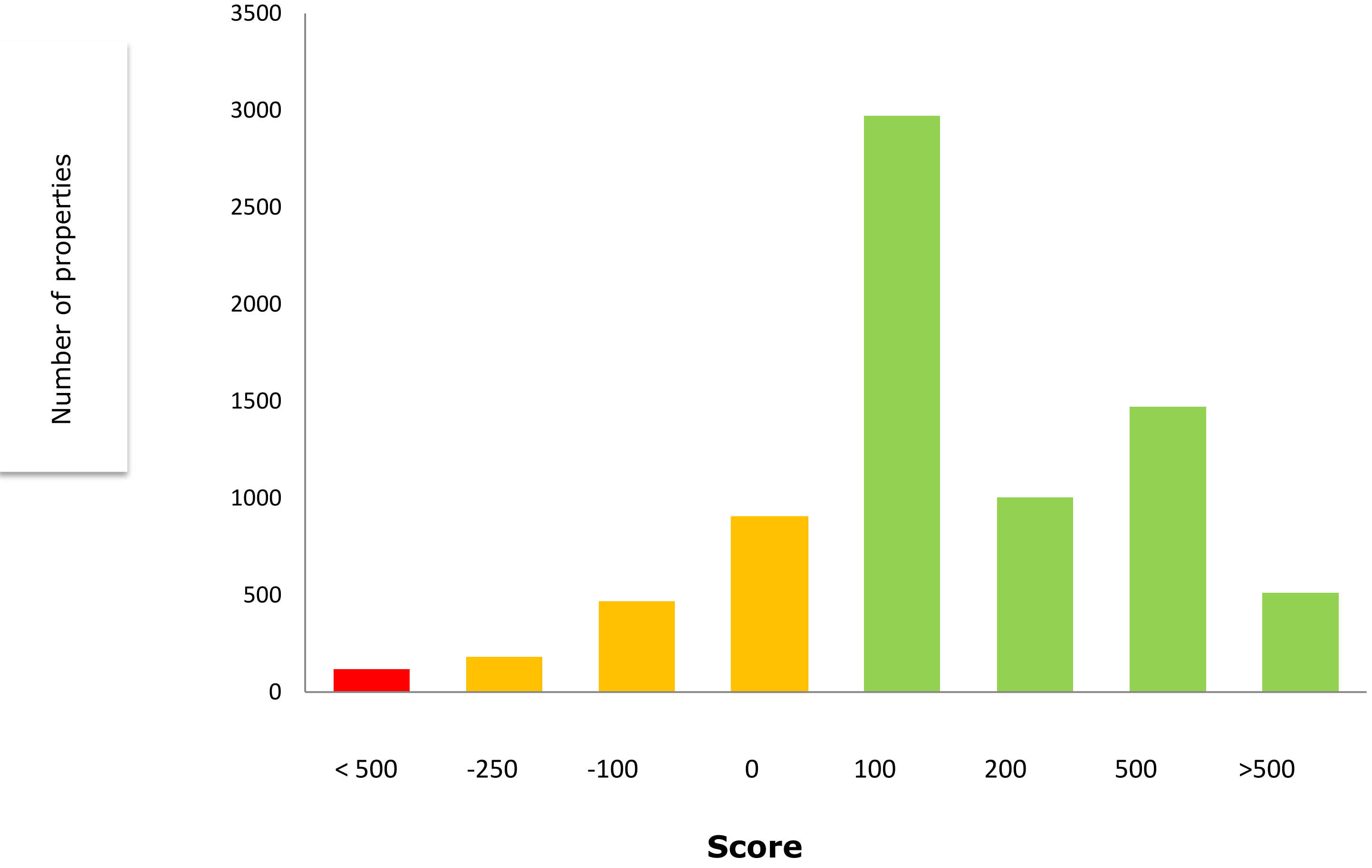
| | |
|---|---|
| Have performance management and scrutiny functions which are effective at driving and delivering improved VFM performance. | • The performance bond payment to employees can only be a made if the budget is met or exceeded.<br>• The calculation of the performance bond payment to employees is linked to efficiency savings (such as savings identified, increased attendance levels, reduced relet times amongst other along with other targets such as customer satisfaction and repairs KPI's.<br>• The lean management process is reported to and approved by the Board. This process can be shown to have successfully reduced void costs, relet times and repair costs.<br>• The budget, and variances from this, is considered in detail at both Finance Risk and Audit Committee and the Board. This process can be shown to have reduced costs through an improving cost per unit and operating margins.<br>• Key Performance Reports are considered in detail by the Board.<br>• Benchmarking is considered through both the Global Accounts published by the HCA and the Housemark report, using the peer group selected by Housemark to avoid mhs choosing favourable comparators.<br>• During the year efficiencies of over £2.3 million were identified, amounting to 4% of the turnover of the mhs group. |
| Understand the costs and outcomes of delivering specific services and which underlying factors influence these costs and how they do so | • This report shows clear direction of travel in most areas where specific areas are considered. Where there are areas of concern, such as rent arrears, these are being addressed.<br>• The lean process allows the organisation to make in-depth, detailed reviews that allow us to understand how costs are built up and how efficiencies can be achieved. |
| Annually publish a robust self-assessment which sets out in a way that is transparent and accessible to stakeholders how they are achieving VFM in delivering their purpose and objectives. | • This statement will be published on the website |

## Appendix 2: Comparators for Housemark benchmarking

Alliance Homes
Bracknell Forest Homes
Coastline Housing
Cottsway Housing Association
Housing Solutions
Magna Housing Association
Magna West Somerset Housing Association
Merton Priory Homes
Mole Valley Housing Association
North Devon Homes
Ocean Housing
Old Ford Housing Association
Phoenix Community Housing
Raven Housing Trust
Red Kite Community Housing
Richmond Housing Partnership
Russet Homes
Saxon Weald
Selwood Housing
Sentinel Housing Association
Severn Vale Housing Society
Soha Housing
Teign Housing
Town and Country Housing Group
Two Rivers Housing
Vale of Aylesbury Housing Trust
Worthing Homes

**Appendix 3**

## No of Properties reviewed for category of active asset management




All properties in the mhs homes group stock were reviewed and based on 30 year maintenance costs, future income and development potential a score calculated. Properties below 500 were noted a "Red" and reviewed immediately. Based on the review 12 properties have been allocated for disposal and the balance earmarked for redevelopment. There is an on-going process of reviewing the "Ambers" (scores between -500 and 0)