# Value for Money Statement - Year to 30th September 2015

## Introduction

The Hyelm Group is committed to finding ways to provide excellent services whilst at the same time seeking to reduce costs and improve efficiency.

Achieving Value for Money (VFM) is a fundamental element of our objective to become a top quartile performing organisation.

We see VFM as the process of delivering savings and improving quality by simplifying everything that we do and by achieving a balance between costs, quality and results.

This statement outlines our approach to achieving VFM in meeting our objectives with reference to our financial, social and environmental returns.

VFM is about maximising the impact of each pound spent to improve the quality of the services that we provide to our residents and to others who benefit from the services provided by us.

The purpose of our VFM drive is to develop a better understanding (and better articulation) of costs and results so that we can make more informed, evidence-based choices. This is a process of continuous improvement.

VFM doesn't mean we only do the cheapest things, but we need to get better at understanding what is driving our costs and make sure that we are getting the desired quality at the lowest price.

Given that our activities are ultimately funded by our residents, we need to be more innovative in how we assess value and we need to get better at articulating what results we are achieving with our residents' money.

Increased transparency and accountability in our operations will help us to drive our VFM agenda. All staff need to be prepared to explain their VFM decisions.

## How We Deliver VFM

VFM is embedded within our business in the following ways:

### Governance

Board members' duties include reviewing the efficiency of our operations and our VFM performance as well as ensuring compliance with the regulatory VFM standard.

The Board discusses our VFM Policy and Statement at least annually and reviews the operational and financial performance of the business quarterly.

### Financial Management

We operate a robust budgeting process that sets out the financial parameters within which our organisation is required to work in order to deliver improvements in the services that we provide to our residents and others who work with us.

The business planning process helps to ensure that our resources and assets are used in the most appropriate ways to deliver our objectives.

Our budget and business plan targets are structured to ensure that the most effective use of our resources is made through efficiency gains year on year with increasing levels of surplus strengthening our capacity to develop new homes and enhance our services.

**Procurement**

We continuously seek to obtain VFM from our suppliers and look to rationalise contracts and re-tender when necessary to ensure that the services that we receive from them meet and deliver our business objectives.

Where appropriate, we undertake an options appraisal process to ensure that there is a robust business case for investment/divestment decisions and that returns are optimised.

**Managing Performance**

We continually review our performance and benchmark ourselves against our peer groups. A key objective of our forthcoming 2016-2019 Strategic Plan will be to achieve top quartile performance for financial strength and quality of services. The Board reviews performance information on a regular basis.

We have set ourselves the challenge of benchmarking our performance against that of our peers within the social housing sector.

Comparative analysis is based on information provided by HouseMark, the BM320 benchmarking group of smaller housing associations in London, the HCA (such as the 2013 Global Accounts of Housing Providers) and other publicly available information.

**Resident Focus**

Improving resident engagement and obtaining regular feedback in relation to our services are key objectives for the life of our forthcoming Strategic Plan 2016-2019.

During 2014/15 we consulted with residents on issues relating to the design of the new accommodation to be provided at our new development schemes, ensuring that the accommodation and services that we provide match the expectations of our residents.

It was also our intention to consult with the Resident Panel on topics such as the VFM offered by the rent and services charges that we levy. This was not possible as the Panel becoming less engaged following the sale of Arthur West House.

A focus for the next 12 months is to establish the Resident Panel at our Old Street scheme so that it can engage on this and other topics.

**Our People**

Our staff are critical to the organisation for the delivery of services to our residents. Providing training and support to our staff is essential to ensure that we maximise their capability.

During the next year we will review the staffing complement needed to deliver our strategic Plan 2016-2019.

**Assessing our VFM Performance**

The Regulatory Framework that was published in April 2012 included a VFM Standard, which requires registered providers to articulate and deliver a comprehensive and strategic approach to achieving VFM in meeting their objectives.

Boards should undertake a VFM Self-assessment annually, which must be published six months after the financial year end and will normally be flagged up in the annual report, and (in fuller form) in the audited accounts, as well as being accessible on the registered provider's website.

The Statement should be capable of demonstrating to stakeholders how the Standard is being met in a way that is both transparent and accessible.

It should also set out how VFM is being achieved in the delivery of the stated purposes and objectives of the organisation and demonstrate an understanding of the return on the organisation's assets when measured against its objectives.

Registered providers should set out the absolute and comparative costs of delivering specific services. They should also evidence the VFM gains that have been and will be made and how these have and will be realised over time.

**The Cost and Quality of Services Provided**

The Board takes assurances on VFM from a number of sources, including benchmarking information provided by the BM320 group and the Skills Projects Benchmarking (SPBM) group of larger small housing associations.

The results of a number of performance indicators are shown in the various tables that follow in this Self-assessment.

**Our Return on Organisational Assets and our Strategy for Optimising Future Returns**

We have a process of clearly accounting for our organisational assets and, where possible, putting a value on what we have, the most obvious example being our housing stock.

We adopted a strategy in 2013/14 to dispose of one of our existing properties, Arthur West House, with a view of using its capital receipt to develop and manage a further 250 units of modern accommodation within Greater London by 2019. The provision of new accommodation is a key objective of the 2016-2019 strategy adopted by the Board.

The property was subsequently sold on the 10th October 2014 and generated a receipt of £30.05 million, some £6 million above the maximum forecast sale price. The sale proceeds were apportioned between Hyelm and the Ames House Trust which had a leasehold interest in Arthur West House. The amount received by Hyelm amounted to £24,115,125, with the balance of £5,934,875 being received by the Ames House Trust.

Our Old Street scheme is nearly eight years old. Resident satisfaction levels continue to remain high. In addition, it was built to comply with, the then, Eco Homes standards and achieved a Very Good rating in this regard.

Our forward plans for our Old Street scheme include provision for the regular maintenance and refurbishment of the property to ensure that it continues to provide high standards of affordable accommodation that meet the expectation of our residents.

We have taken comfort from historically low levels of void loss and arrears, which compare very favourably with those within the sector. Our future investment in our properties will ensure that demand for our accommodation is such that our void levels are maintained at their current low levels.

In terms of the value of our stock, our Old Street scheme would have the potential to generate £1.350 million per year at market rent levels (compared to the current £0.800 million at social rent levels).

Over the last year we began to look at ways of maximising the 'return' from this asset whilst maintaining rents at levels that are affordable for our client groups. The main focus of this is in relation to our communal spaces, which are currently underutilised.

As a result a portion of our management suite has subsequently been rented on a commercial basis. A key objective of our Strategic Plan 2016-2019 is to look at ways in which we can maximise the value we can get from all communal spaces at Hyelm-Old Street. During November 2015 accommodation within the management suite was rented to a third party. The accommodation rented will be treated as an investment property from financial year 2015/16 onwards.

**Benchmarking – Quality and Cost**

| Resident Satisfaction | Benchmark: Peer group upper quartile | Benchmark: Housemark upper quartile | Hyelm 2012/13 | Hyelm 2013/14 | Hyelm 2014/15 |
|---|---|---|---|---|---|
| % of residents satisfied or very satisfied with our services | 96% | 89% | 100% | 100% | 100% |
| % of residents satisfied or very satisfied with repairs and maintenance | 99% | 85% | Data not available | 100% | 100% |
| % of residents satisfied or very satisfied on VFM for rent | 89% | 85% | Data not available | Data not available | 88% |

Although we regularly survey our residents to establish their levels of satisfaction with the overall service that we provide (as shown in the table above), we widened our survey during 2013/14 to include more specific data on levels of satisfaction with our repairs and maintenance service.

During 2014/15, we also surveyed our residents to establish their levels of satisfaction with the VFM that we provide in the rents that we charge.

In all cases, our target will be to maintain or improve upon current levels of satisfaction, but always to keep our performance within the upper quartile.

**Finance**

The accounts for the year ending 30 September 2015 have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) including Financial Reporting Standard 102 (FRS 102) and the Housing SORP 2014: Statement of Recommended Practice for Registered Social Housing Providers. This is the first year in which the accounts have been prepared in accordance with FRS 102 and as a result a number of financial performance measures have been restated. The comparison of performance against other members of the BM320 benchmarking Group may not therefore be accurate as not all registered providers will have adopted the new accounting requirements.

Prior to the sale of Arthur West House, Hyelm provided General Needs accommodation at the Old Street development and Supported Housing/hostel accommodation at Arthur West House. On disposal of the Arthur West Site, the central costs supporting the Supported Housing/Hostel activities have been re-classified as General Needs which has resulted in a significant increase in the cost per unit in relation to both management and operating costs in respect of our general need accommodation. The additional costs reflect the investment in management resources in planning the development of new general needs accommodation to replace Arthur West House. In order to demonstrate the year on year financial performance of our Old Street accommodation, the performance table shows, where appropriate, the total General Needs cost per unit and separately, the costs directly attributed to our Old Street accommodation.

| Other Measures | Benchmark: Peer group upper quartile | Benchmark: Housemark upper quartile | Our Performance 2012/13 | Our Performance 2013/14 | Our Performance 2014/15 |
|---|---|---|---|---|---|
| % of repairs fixed on first visit | 99.8% | 96.1% | 100% | 100% | 99.32% |
| Average re-let time (days) | 14 | 17 | 0 | 2 | 3 |
| Current rent arrears | 2.21% | 1.52% | 0.27% | 0.55% | 0.72% |
| % of void losses | 0.40% | 0.47% | 0.00% | 0.20% | 0.37% |
| Weekly operating cost per property – General Needs total | £74.04 | No data available | £110.14 (re-stated) | £101.30 (re-stated) | £146.03 |
| Weekly operating cost per property – Old Street | £74.04 | No data available | £110.14 | £101.30 | £117.21 |
| Operating costs as % of turnover – General Needs total | 74% | 70.6% | 81.88% | 75.17% | 94.31% |
| Operating costs as % of turnover – Old Street | 74% | 70.6% | 81.88% | 75.17% | 75.69% |
| Management Costs per property – General Needs total | n/a | n/a | £27.70 | £25.60 | £48.88 |
| Management Costs per property – Old Street direct costs | n/a | n/a | £27.70 | £25.60 | £27.88 |
| Management costs as % of turnover – General needs total | n/a | n/a | 19.29% | 17.83% | 31.57% |
| Management costs as % of turnover – Old Street | n/a | n/a | 19.29% | 17.83% | 18.01% |

**Average re-let times:** Demand for accommodation at our Old Street scheme remains high and there is a relatively low turnover of residents. However, re-let times have marginally increased during 2014/15. This was due primarily to difficulties that were experienced in securing referrals for our accommodation from our new strategic partners in a timely manner. We will work closely with our partners over the forthcoming year to improve the efficiency of the referrals procedure.

**Percentage of void losses:** The increase in void losses during 2014/15 reflected the increase in re-let times. The challenge in future years will be minimise void losses, particularly as the building 'ages'. A rolling programme of essential maintenance and refurbishment will be necessary to maintain appropriate standards of accommodation.

**Weekly operating costs per property – Old Street:** The weekly operating costs per property in the period to 30 September 2015 amounted to £117.21, 74% higher than the upper quartile of the benchmarking group. An element of the additional weekly costs during the year to 30 September relates to the additional depreciation charge for social housing that has arisen from the adoption of the FRS 102 accounting requirements. Additional costs were also incurred during the year relating to a number of major water leaks within the Old Street property which resulted in significant increases in water charges. These leaks have now been repaired.

**Weekly management costs per property – Old Street:** Overall, there was as slight increase in weekly management costs during the period to 30 September 2015.

**Rate of Return on Assets**

| | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| | £'s | £'s | £'s | £'s |
| Surplus /(Deficit) (excluding asset sales) | (6,168) | 15,088 | (105,390) | (260,147) |
| Average total assets (net of grant) | 19,186,947 | 19,229,135 | 18,131,249 | 16,805,180 |
| **Return on assets** | **-0.03%** | **0.08%** | **-0.58%** | **-1.55%** |

**Note:** The deficit in respect of 2015 has been adjusted to exclude the surplus generated by the sale of Arthur West House, together with directly attributable costs, thereby reflecting the rate of return based on continuing operations.

The reduction in the rate of return on assets during both the period to 30 September 2014 and the year to 30 September 2015 reflect the reduction in rental income from Arthur West House, both prior to and subsequent to the disposal of the property. Although costs directly associated with Arthur West house are no longer being incurred, central overhead costs continue with a focus on the development programme which will lead to the development of new general needs accommodation. Whilst income was reduced, a significant element of our cost base is fixed with the result that the return on assets was reduced compared to previous years. This is also reflected in the return on capital employed as demonstrated in the following table.

| | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| | £'s | £'s | £'s | £'s |
| Earnings before interest and tax | 356,211 | 380,574 | 245,427 | (41,108) |
| Capital Employed (net of grant) | 13,275,373 | 13,263,520 | 13,130,518 | 12,775,144 |
| **Return on capital employed** | **2.68%** | **2.87%** | **1.87%** | **-0.32%** |

A key requirement during future years will be to ensure that our cost base is maintained or, where possible reduced to ensure that the cash balance generated by the sale of Arthur West House are not sued to support day to day operating costs, but can be invested in the provision of new accommodation.

**Other financial measures**

The following table provides performance measures for Hyelm over past four years.

| | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|
| Debt per unit managed | £18,816 | £18,780 | £18,736 | £53,407 |
| Operating margin | 19.96% | 20.41% | 14.03% | 2.05% |
| Interest cover to EBITDA – excluding the sale of Arthur West House | 1.84:1 | 1.84:1 | 1.55:1 | 1.06:1 |
| Gearing ratio (includes sale of Arthur West House) | 56.39% | 56.17% | 56.87% | 19.40% |

The increase in debt per unit reflects the sale of Arthur West House and the reduction in units. As a result the debt per unit now only relates to the 125 units of accommodation at Old Street. Although the debt per unit has risen, the overall amount outstanding continues to reduce each year in accordance with the repayment schedule incorporated within the AIB facility agreement.

Prior to the decision to sell Arthur West House, the operating margin was increasing year on year. Reductions in occupancy were planned and budgeted for during the period to 30 September 2014, and following the sale of the property, no income has been received during the year to 30 September 2015. Although costs directly associated with the property have ceased, overhead costs remain high as we focus on the programme for provision of the general needs property as part of our agreed strategy. The retention of these central overheads has as a result led to a reduction in the operating margin.

Our loan facility with AIB is based on an agreement that requires Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) are at least equal to the financing costs of interest payable plus repayments of principal (a 1:1 ratio). Including the sale of Arthur West House, the EBITDA ratio was 57.97:1. Excluding the surplus generated by the sale of Arthur West House, together with any directly attributable costs, the underlying EBITDA ratio is 1.06:1 as shown in the table above. Whilst the ongoing activities of the association are budgeted to ensure compliance with all financial covenants it is important that the costs of the association are carefully monitored and controlled during the development programme and prior to new income generating schemes becoming operational.

**Procurement**

In order to ensure that we achieve best value for money from the goods and services that we procure, Standing Orders are in place that require competitive quotations to be sought for low value goods, and for formal tendering procedures to be enacted for more valuable services.

During the course of the year to 30 September 2015 the following good and services were tendered:

- Gas and electricity supplies.
- Insurance Services

Where possible, we make use of procurement exercises that have been undertaken by other organisations to ensure that best value has been obtained.

We continue to take advantage of a procurement exercise previously undertaken by Peabody, (a large national housing association) to appoint architects and cost consultants to provide us with services in relation to our development programme, knowing that the firms selected have already been market tested for both quality and price. We therefore continue to avoid the costs associated with following a separate EU procurement process of our own.

**Social Value for Money**

The main area in which we deliver social VFM relates to the provision of affordable accommodation as a social landlord.

Having sold Arthur West House, we plan to invest in excess of £30 million during the next 3 years to provide approximately 250 high quality units of affordable accommodation for young people.

The provision of such affordable accommodation generates a number of other social values that, through the work of a number of independent researchers, have been ‘costed’ with an estimated cash value being ascribed to each of the values.

Examples of the ‘cash value’ benefit to those under 25 years of age resulting from the affordable accommodation that we provide is shown in the table below:

| Valuation | Description | Annual 'Cash Value' per person |
|---|---|---|

| | | |
|---|---|---|
| Job Specific Skills | This valuation is the average value to an individual of acquiring new skills from training at their employment or at a job centre. | £1,291 |
| Belonging in a neighbourhood | This valuation is the average value to an individual of feeling like they belong in their neighbourhood. | £9,409 |
| Living in a good place | This valuation is the average value to an individual of living in a neighbourhood that they think is a 'good place to live' | £1,048 |
| Active in tenants groups | This valuation is the average value to an individual of being active in a tenants' or residents' association group. | £4,870 |
| Ability to pay for housing | This valuation is the average value to an individual of being able to pay for their accommodation. | £4,408 |
| Fear of Crime | This valuation is the average value to an individual of not being worried about being a victim of crime. | £1,721 |

Extrapolating the above across all residents at our Old Street scheme would generate a total social value of £2.84 million per annum.

During the course of the year two apprentices were employed by the Group following an accredited training course. Both apprentices have left and further apprenticeships will be considered as the development programme progresses and employment opportunities are identified.

The social value of employing apprentices has also been costed as follows:

| **Valuation** | **Description** | **Annual 'Cash Value' per person** |
|---|---|---|
| Apprenticeships | This valuation is the average value to an individual of participating in an apprenticeship scheme. | £1,048 |

The G320 group of smaller housing associations in London, of which we are a member, recognises that there is further scope for greater consideration and reporting on the estimated 'cash value' of the social value work that its members do.

The group, therefore, aims to carry out further research and work in this area during the forthcoming year.

The social value that we deliver can then be compared to the actual money that we spend in relation to delivering projects and to determine if VFM is being achieved.

**VFM in 2014/15**

It is our aim to be in the top quartile for both financial and operational performance, and to see our performance improve each year.

During 2014/15 we delivered the following:

- Agreed a new, more appropriate, set of key performance indicators to measure our performance on a regular basis.
- Worked with the BM320 to investigate ways of benchmarking a number of our core services e.g. IT Services, internal and statutory audit, central staffing, insurance and HR costs.
- Extended our resident survey feedback, in particular, on levels of satisfaction with the VFM that our rent and service charge levels provide.

- Compared our void management processes with those of our peer group to ensure we are following/utilising best practice.
- Set clear operational and performance targets for inclusion in our budgets and business plans for 2015/16 and beyond.
- Secured new energy contracts through a competitive tendering process thereby reducing the unit cost of both electricity and gas.
- Reduced our insurances costs through a competitive tendering process, securing savings in excess of £24,000 over a three year period.

In addition we aimed to widen our cope of engagement with the Resident Panel. Following the sale of Arthur West House the Resident Panel became less engaged and this was not achieved. It is our intention to re-launch the Resident Panel during 2015/16 and continue with this engagement.

**VFM for 2015/16**

It is our aim to be in the top quartile for both financial and operational performance, and to see our performance improve each year.

In order to achieve our objective we will need to be able to measure our performance and, where appropriate, to measure our performance against that of our peers to enable us to see what we do well, why our performance differs, and how we can improve our performance and provide better value for money.

As a result we will be undertaking further work over the next year to support our aim of achieving our target. More specifically we will:

- Re-launch the Resident Panel
- Review our water treatment service contract
- Re-tender for the supply of electricity and gas.