Hyelm – Value for Money Statement

Assessing our VFM Performance

Our Regulator, the Homes and Communities Agency (HCA), is looking for assurances from housing associations through their VFM Statements that they, in the main, have a clear and strategic approach to VFM.

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 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.

Our Old Street scheme is nearly seven 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 £1.288 million per year at market rent levels (compared to the current £0.800 million at social rent levels).

One of our projects for 2014/15 is 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 will be in relation to our communal spaces, which are currently underutilised.

Benchmarking – Quality and Cost

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

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 will also survey our residents to establish their levels of satisfaction with the VFM that we provide in the rents that we charge. These levels can then be compared with those of other providers of a similar size and in similar locations.

An important element of this survey will be to understand why, if there is any significant degree of dissatisfaction, and to establish how our performance could be improved in terms of the services that we provide in exchange for 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

Other Measures	Benchmark: Peer group upper quartile	Benchmark: Housemark upper quartile	Our Performance 2012/13	Our Performance 2013/14
% of repairs fixed on first visit - Hyelm	99.8%	96.1%	100%	100%
% of repairs fixed on first visit – Old Street scheme only	99.8%	96.1%	100%	100%
Average re-let time (days) – Old Street scheme only	14	17	0	2
Current rent arrears – Hyelm	2.21%	1.52%	0.27%	0.33%
Current rent arrears – Old Street scheme only	2.21%	1.52%	0.27%	0.55%
% of void losses – Hyelm	0.40%	0.47%	0.10%	0.40%
% of void losses – Old Street scheme only	0.40%	0.47%	0.00%	0.20%

Weekly operating cost per property - Hyelm	£74.04	No data available	£82.40	£82.65
Weekly operating cost per property – Old Street only	£74.04	No data available	£103.73	£95.25
Operating costs as % of turnover - Hyelm	74.0%	70.6%	82.52%	88.25%
Operating costs as % of turnover - Old Street scheme only	74%	70.6%	77.16%	70.67%
Management Costs per property - Hyelm	n/a	n/a	£24.95	£25.45
Management Costs per property - Old Street scheme only	n/a	n/a	£27.70	£25.60
Management costs as % of turnover - Hyelm	n/a	n/a	24.99%	27.18%
Management costs as % of turnover - Old Street scheme only	n/a	n/a	20.60%	18.99%

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 increased during 2013/14. 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 2013/14 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 – Hyelm: The weekly operating costs for Hyelm for the period to 30 September 2014 amounted to £82.40 compared to the peer group benchmark of £74.04. An element of the additional costs related to the provision of a catering service at Arthur West House, which is included in the rent payable by residents. However, this is offset by the fact that there was no depreciation charge on Arthur West House. Following the sale of Arthur West House in October 2014, the primary comparison will be the operating costs relating to the Old Street scheme.

Weekly operating costs per property – Old Street: The weekly operating costs per property in the period to 30 September 2014 amounted to £95.25, 28% higher than the upper quartile of the benchmarking group. Whilst it is recognised that we provide a service that is different to many of our peers, work will be undertaken during 2014/15 in conjunction with the BM320 benchmarking group to understand the nature and cost of the difference. As part of that process, we will be benchmarking a number of our core costs including insurance, central staffing, audit, IT services and HR costs.

Weekly management costs per property: Overall, there was as slight increase in weekly management costs during the period to 30 September 2014. The increase largely relates to 'one off' costs such as redundancies and professional fees relating to the closure of Arthur West House. The management costs per unit for Old Street reduced during the period from £27.70 to £25.60, largely as a result of underspends against budgeted training and professional fees.

Rate of Return on Assets

	2012	**2013**	**2014**
	£'s	**£'s**	**£'s**
Deficit for the year	(21,814)	(558)	(121,417)
Average total assets (net of grant)	13,869,765	13,711,953	13,499,102
Return on assets	**-0.16%**	**0.00%**	**-0.90%**

During the period ending 30 September 2014, the Board agreed that Arthur West House should be sold, with the proceeds being used to fund the development of new accommodation.

As a result, there was a budgeted reduction in income levels during the months prior to the closure of the property.

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
	£'s	**£'s**	**£'s**
Earnings before interest and tax	340,565	364,928	228,058
Capital Employed (net of grant)	13,275,468	13,263,520	13,127,898
Return on capital employed	**2.57%**	**2.75%**	**1.74%**

It is considered that return on capital employed gives a better measure of our underlying financial performance as it excludes depreciation and interest payable from the performance measure.

Our loan facility with AIB is based on an agreement that, in the early years of our Old Street scheme, after charging interest and deprecation, the scheme will generate an accounting loss.

The return on capital employed demonstrates that earnings increased between 2012 and 2013, indicating improved profitability.

During the period to 30 September 2014, and prior to the closure of Arthur West House, there was a reduction in income at Arthur West House, although not all costs could be reduced during the same period, which resulted in a reduction in the return on capital.

All costs associated with Arthur West House have now ceased and future performance reporting will reflect this.

	2012	2013	2014
Debt per unit managed	£18,726	£18,654	£18,694
Operating margin	19.30%	17.47%	11.75%
Interest cover to EBITDA	1.78:1	1.84:1	1.50:1
Gearing ratio	56.39%	56.17%	56.87%

The debt per managed unit has fallen during the accounting period leading to 30 September 2014 as repayments of principal are made in respect of the AIB loan facility that supported the development of the Old Street Scheme.

Our Arthur West House property was debt free and the sale of the property has reduced the number of bed spaces that we provide from 358 to 125. The debt per unit managed will, therefore, increase in future years prior to the completion of the new accommodation that we propose to construct.

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 period to 30 September 2014 the following good and services were tendered:

- Gas and electricity supplies for both our Old Street and Arthur West House schemes.
- Internal Audit.
- Statutory audit.
- The appointment of marketing agents in relation to the sale of Arthur West House.
- The appointment of lead consultants to assist in the management of our development programme.
- The appointment of solicitors to lead on the sale of Arthur West House.

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

An example relates to the procurement of marketing agents for the disposal of Arthur West House, where we utilised the procurement framework established by the Cabinet Office for the procurement of a suitable firm for the provision of such services.

By utilising this framework, which had already satisfied EU procurement legislation and ensured that competitive prices were in place, we were able to avoid the high costs associated with a tendering process of this nature, and were able to secure a ‘better than framework’ price by promoting a competitive process amongst those suppliers that were included within the framework structure.

During the current year, we have also been able to take advantage of a procurement exercise previously undertaken by Peabody, (a large national housing association) to appoint architects to provide us with services in relation to our development programme, knowing that the firm selected had already been market tested for both quality and price. We, therefore, avoided the costs associated with following a separate EU procurement process on 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.

We also employ two apprentices. 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 for 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.

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 VFM.

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

- Agree a new, more appropriate, set of key performance indicators to measure our performance on a regular basis.
- Benchmark a number of our core services, e.g. IT Services, internal and statutory audit, central staffing, insurance and HR costs.
- Widen the scope of engagement with our Resident Panel and extend resident survey feedback, in particular, on levels of satisfaction with the VFM that our rent and service charge levels provide.
- Compare our void management processes with those of our peer group to ensure we are following/utilising best practice.
- Set clear operational and performance targets to be included in our budgets and business plans for 2015/16 and beyond.