Value for Money Statement – Year to 30th September 2016

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 2016-2019 Strategic Plan is 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 2015 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 Strategic Plan 2016-2019.

Following the sale of Arthur West House in 2014 the Resident Panel had become less engaged. It was our intention during 2015/16 to work with the remaining Panel member to re-establish a Resident Panel at our Old Street scheme. The remaining member, however, moved out of the Old Street accommodation during the year.

During 2016/17 we intend to develop our overarching approach to resident involvement in line with our strategic objectives. This will include a review of the need/value of a Resident Panel.

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 2015/16 we reviewed the staffing complement needed to deliver our 2016-2019 Strategic Plan. Salary and benefits packages were also reviewed during the year.

During the next year we will review our HR contracts, handbooks and policies to ensure that they remain in line with best practice.

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 our peers within the London based benchmarking group of smaller providers, the BM320 and the Skills Projects Benchmarking (SPBM) group of UK wide 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. Work is underway on the procurement of suitable development sites with offers having been made and accepted on one site during the course of the year.

As we develop our plans for the development programme a key focus will be ensuring that we deliver a value for money solution and maximise the return on our investment. Whilst the Board recognises that the provision of low cost but affordable accommodation will not generate a 'market return', a number of financial targets have been agreed, which must be achieved before any scheme proceeds ensuring that the scheme is profitable and the value of the investment is maintained.

Our Old Street scheme is nearly nine 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 are also exploring the possibility of providing additional accommodation on the site in order to maximise rent income from a minimal capital outlay.

Old Street provides accommodation for young people at the beginning of their careers ensuring that they are accommodated in low cost, quality accommodation in a secure environment. Of the units available 74 bedspaces provide intermediate rent accommodation for priority group workers, with rent at a significant discount to comparable accommodation in London. The remaining 51 bedspaces are provided for non-priority group workers – with rent levels again at a discount.

Over time the discount available to priority group workers has exceeded that for non-priority group workers who typically are on lower salaries. In order to remove this anomaly and to increase the overall level of rent income, the Board approved a policy of linking all rents to the level deemed affordable for single people in receipt of the London living Wage. The Low Cost but Affordable rent is based on the first quartile of rents for accommodation which for single people includes room, shared rooms, bedsits and maisonettes. Rent for non-priority groups is at this level which is 32% less than equivalent private rented accommodation at the first quartile for the N1 postcode. The intermediate rent for accommodation at Old Street is currently at a discount of 40% to the first quartile. The Board policy will result in all new lets being at the LCA rent, which will result in additional rent income being generated yet maintaining rents at an affordable level.

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 two years 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 has been in relation to our communal spaces, which were underutilised.

As a result of the review accommodation within the management suite was rented to a third party from November 2015. Further office accommodation will be rented on a commercial basis from February 2017 thereby increasing total income.

A key objective of our Strategic Plan 2016-2019 is to look at ways in which we can further maximise the value we can get from all communal spaces at Hyelm-Old Street.

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 2013/14	Hyelm 2014/15	Hyelm 2015/16
% of residents satisfied or very satisfied with our services	94%	89%	100%	100%	90%
% of residents satisfied or very satisfied with repairs and maintenance	87%	84%	100%	100%	90%
% of residents satisfied or very satisfied on VFM for rent	88%	85%	Data not available	88%	76%

A key objective of our Strategic Plan 2016-2019 is to ensure we house those people from within our client group in greatest need. To enable us to do this we needed to move-on those residents who were no longer in need of our accommodation. Satisfaction levels have suffered during the year whist we managed this process. We will continue to monitor resident satisfaction and expect levels to increase during the next year. It remains our target is 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 2016 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. The comparison of performance against other members of the BM320 benchmarking Group may not be accurate as not all registered providers will have adopted the new accounting requirements of FRS 102.

Following the sale of Arthur West House in October 2014, Hyelm only provides accommodation at its Old Street property. This is a mix of private rented accommodation and grant supported intermediate rent accommodation that is tenanted by priority group workers. On disposal of the Arthur West site, management costs per unit increased as central costs previously allocated to the property have been retained but are supporting the development programme which will provide new accommodation on a number of sites.

In order to demonstrate the performance of the Old Street site, the following tables, where appropriate, show both the total cost per unit managed 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	Our Performance 2015/16
% of repairs fixed on first visit	98.5%	96.0%	100%	100%	99.3%	98.2%
Average re-let time (days)	13	19	0	2	3	6
Current rent arrears	0.72%	1.62%	0.27%	0.55%	0.72%	0.45%
% of void losses	0.20%	0.55%	0.00%	0.20%	0.37%	0.82%
Weekly operating cost per property – total	£88.25	No data available	£107.72	£107.78	£163.08	£139.83
Weekly operating cost per property – Old Street only	£88.25	No data available	£110.04	£101.30	£116.97	£117.31
Operating costs as % of turnover –total	65.00%	No data available	88.43%	88.09%	105.39%	88.33%
Operating costs as % of turnover – Old Street only	65.00%	No data available	76.62%	70.55%	75.59%	74.11%

Management Costs per property –total	n/a	n/a	£30.81	£31.42	£58.61	£51.19
Management Costs per property – Old Street direct costs	n/a	n/a	£27.70	£25.60	£27.88	£32.20
Management costs as % of turnover – total	n/a	n/a	23.68%	33.72%	37.88%	32.33%
Management costs as % of turnover – Old Street only	n/a	n/a	19.29%	17.83%	18.01%	20.34%

Average re-let times: Demand for accommodation at our Old Street scheme remains high and there is a relatively low turnover of residents. The increase in re-let times during 2015/16 was due to the number of evictions in relation to our policy to move-on those residents who had been living in our accommodation for over 5 years. It is expected that re-let times will drop during the next year.

Percentage of void losses: The increase in void losses during 2015/16 is in relation to the number of evictions that have been sought in accordance with our resident move-on plan (where we have not known a resident's leaving date) as well as for cyclical refurbishment works to be completed within apartments. The challenge in future years will be to 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 2016 amounted to £117.31 (2015: £116.97), 33% higher than the upper quartile of the benchmarking group. Efficiencies have been made through our procurement process resulting in reductions in the unit costs of gas and electricity and as a result of the retendering for insurance services. There has however been a significant increase in the level of planned maintenance that has been undertaken with a total additional investment of £25k. As a result of efficiency gains described above, and close management of costs, the gap between us and our peer group has fallen from the 74% differential reported in 2014/15.

Weekly management costs per property – Old Street: Overall, there was as slight increase in weekly management costs during the period to 30 September 2016 which was a result of budgeted additional costs relating to the requirement for the property to be revalued and for implementing new tenancy agreements to support the association's policy of assisting residents to move on to new accommodation as their financial position improves, thereby providing low cost accommodation to new people at the start of their careers.

Rate of Return on Assets

	2012	2013	2014	2015	2016
	£'s	£'s	£'s	£'s	£'s
Surplus /(Deficit) (excluding asset sales)	(6,168)	15,088	(105,390)	(260,987)	13,243
Average total assets (net of grant)	19,186,947	19,229,135	18,131,249	28,270,987	39,524,811
Return on assets	**-0.03**	**0.08%**	**-0.58%**	**-0.92%**	**0.03%**

** The rate of return on assets calculation for the year to 30 September 2016 does not include the sale proceeds from the disposal of Arthur West House.*

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. The increase in the rate of return for 2016 reflects the complete cessation of all costs associated with Arthur West following its closure and sale.

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 affordable 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. The improvement in the rate of return for 2016 is a result of the cessation of all costs associated with Arthur West House together with interest generated by cash balances held by the association following the sale of Arthur West House.

	2012	**2013**	**2014**	**20158**	**2016**
		£'s	**£'s**	**£'s**	**£'s**
Earnings before interest and tax	356,211	380,574	244,085	21,639	184,628
Capital Employed (net of grant)	13,275,373	13,294,320	13,137,256	35,767,299	35,748,060
Return on capital employed	**2.68%**	**2.86%**	**1.86%**	**0.06%**	**0.52%**

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 used 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 five years.

	2102	**2013**	**2014**	**2015**	**2016**
Debt per unit managed	£18,816	£18,780	£17,736	£53,407	£53,148
Operating margin (excluding the sale of Arthur West House)	19.96%	20.41%	13.95%	1.93%	16.37%
Interest cover to EBITDA – excluding the sale of Arthur West House (year ending 2015)	1.84:1	1.85:1	1.55:1	0.86:1	2.18:1
Gearing ratio (includes sale of Arthur West House)	56.66%	56.55%	57.00%	19.40%	19.30%

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. Following disposal of the property income has been generated solely from the Old Street accommodation and interest receivable generated by cash balances held pending reinvestment in our development programme. Overhead costs continue to remain high as we focus on the programme for provision of affordable accommodation as part of our agreed strategy. The retention of these central overheads has as a result led to an overall 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. However, as the table above shows, the underlying EBITDA ratio, excluding the sales proceeds from Arthur West House was 0.86:1. Budgets for 2015/16 were set to ensure that the required ratio was met or exceeded and similarly budgets for future years will be set to ensure that the covenant is achieved.

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 2016 the following good and services were tendered:

- Gas and electricity supplies.
- External audit services.
- Water treatment and monitoring contract.

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.

During 2016/17 the BM320 are looking to conduct a best value review on legal services.

VFM in 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.

During 2015/16 we:

- Continued to work 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.
- Secured new energy contracts through a competitive tendering process thereby reducing the unit cost for both electricity and gas. As a result of the lower prices achieved we have been able to reduce the service charges paid by our residents for the rent year commencing 1 January 2017.
- Tendered for external audit services and maintained costs at the same level as for the 2014/15 audit.
- Best value reviewed our water treatment and monitoring contract to secure the most competitive price for the service.
- Benchmarked employee salaries and benefits packages ensuring that the remuneration packages of our employees are both competitive and in line with our peers.

VFM for 2016/17

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:

- Develop our overarching approach to resident involvement in line with our strategic objectives.
- Re-tender for the supply of electricity and gas.
- Maximise the value of our communal spaces through increasing our commercial rent income and better utilisation of the space for residents' social and training events.
- Review the elements that make up the service charges that our residents pay to ensure that they remain as affordable as possible for those whom we set out to house.
- Work with the BM 320 to carry out a best value review of our legal services.
- Review HR Contracts, handbooks and policies to ensure that remain in line with best practice.
- Review our IT contracts.