

Soha Housing

Value for Money Report

2016/17

**Soha does not make a profit.
All income is spent on maintaining
homes, providing homes and
investing in communities.**

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We have a comprehensive and strategic approach to achieving and delivering value for money (VfM) to meet our corporate objectives, which is led by the Board.

In November 2016, the HCA confirmed Soha's compliance with the Economic Regulatory Standards and gave us the top ratings of G1 and V1.

The Board believes that Soha continues to be compliant with the VfM Standard and that this is an area of strength for us because:

- 1 We have a strong and systematic approach to asset management (**see section 2**) which seeks to maximise the return on assets and which has seen us develop 178 new homes in the last year;
- 2 Our performance is good and we continue to maintain this whilst driving down costs. We use benchmarking as a core tool to assess our performance compared with similar organisations (**see section 3**). This also helps us set targets for our performance across our Corporate Planning cycle;
- 3 We have a culture of achieving VfM throughout the organisation, shown through cost savings (**see section 4**) and service improvements. Our approach permeates our Corporate Plan, our Approach to Excellence and business strategies, filtering through to individual service teams and members of staff. Our budget setting cycle allows and encourages staff to identify and make VfM savings across a longer period of time. A significant achievement this year has been the implementation of a new business IT system, which we expect to bring significant benefits to efficient working, giving staff more time to focus on front-line services.

We have a clear Corporate Purpose and Aims, with objectives to help us achieve each. Our approach to Value for Money is to work towards these, in a way that is consistent with our values, in the most efficient and effective way we can.

Soha's Value for Money Statement is included in our Annual Accounts, which are available from www.soha.co.uk

A more accessible summary of this statement has been produced for our main stakeholder, our tenants, with their input. This will be published in our Annual Report.

Soha aims to be a leading community housing association where residents and staff shape a sustainable future.



Our values



Put people first

We listen to what people have to say and speak and act with respect. We recognise people's needs and aspirations in how we work.



Look for opportunities

We look for opportunities and seek positive solutions. We work together to put things right and we always look for better ways of doing things.



Achieve more together

We know we achieve more when we work in partnership with residents, with other organisations and with colleagues across the company.



Have high standards

We take pride in our work and responsibility for what we do. We recognise and celebrate the achievements of others. We are honest and transparent in how we work.

In last year's VfM report, we outlined an action plan. The report below shows how we have performed.

	Action Plan	Performance 2016/17
1	Return on Assets	
1.1	In addition to the 180 new properties currently contracted or Board approved our uncommitted development targets are:	
	2016/17 – 200 new properties, cost £35m	<i>178 properties, cost £22.9m</i>
	2017/18 – 250 new properties, cost £44.5m	N/A
	2018/19 – 250 new properties, cost £45.7m	N/A
	2019/20 to 2022/23 – 250 new properties per annum, cost £197m	N/A
1.2	We will complete our work to tackle our least energy efficient homes.	Over 2 years, we have improved the warmth of 127 homes by an average of 20 SAP points at an average cost of £5,037.
1.3	We will continue to refine our approach to understanding the value of resident involvement, using this information to improve our plans to focus on activities that give the best returns for Soha, for individual tenants and for communities.	An Investing in Involvement Statement was produced with tenants and forms section 5 of this report.
2	Comparative and absolute costs	
2.1	Make further improvements to financial literacy throughout the organisation (e.g. through training for non-financial staff) so that we continue to build on our strong culture of VfM.	Training for all staff was run to launch Soha's new Financial Regulations. This includes our approach to building VfM.
3	VfM gains	
3.1	Tender contracts for gas servicing and external decoration.	Cost increased due to changes in the market. However, costs now include all out of hours repairs (previously charged separately as chargeable repairs).

Soha has a comprehensive approach to asset management, driven by the Board.

This is set out through our Corporate Plan with the links between the return on assets and how we meet our corporate objectives (as outlined in the Strategic Report) explicitly shown below in bold italics.

A Providing new homes - *Housing Provider of Choice*

Soha's development programme slowed slightly in 2016/17, as we considered the impact of the increased cost of development and the rent decrease. However, we achieved a good result of 178 new properties at a cost of £22.9m, operating in a high cost development area.

Forward planning – Our development strategy set out in the Business Plan is set at realistic levels and it has been assumed that no grant will be received on any of the new developments for the life of the plan. Development targets in the Business plan are 250 properties per annum over a 7 year period at a cost of £292m. In order to achieve our targets we will be raising additional debt finance which has been fully factored into the Business Plan and stress tested to ensure that we maintain our financial strength.

B Maximising our return on assets - *Getting the basics right, helping tenants thrive not just survive*

Soha is a locally based association and our asset management is based on our good understanding of current housing stock and the area in which we operate. We hold full internal and external stock condition data on over 97% of our stock and keep this up to date with a programme of inspections.

The Board's investment decisions are made on sound business bases which are geared towards achieving our corporate objectives.

B1 Financial and social return: *Maximising return on assets*

In addition to major regeneration works where we consider alternative proposals for underperforming stock in specific localities, schemes or estates, Soha also considers alternatives for properties when they become void which meet specific criteria, allowing us to get a good balance between quick void turnaround times and making the right decisions on a property by property basis. This means that if a void property:

- Is high value (market valuation over £300K);
- Has a high void cost (over £10K); or
- Is low SAP rated (under 55)

We review how best to maximise the return on that asset. Consideration is given to the location of each property, as well as local housing need, as well as the cost and value of the property. The final decision is taken by the Executive Team. During 2016/17, the Executive Team considered 8 void properties which were either high value, had a high void cost, low Standard Assessment Procedure

(SAP) rated or a combination of the three factors. As a result five properties were sold in the year in 2016/17 (four agreed in the previous year 2015/16), giving a capital receipt of £1.7m. In total, selling five properties will allow around 10 new homes to be built (assuming our current split of 70/30 Affordable Rent / Shared Ownership).

Update on action plan – We have a good understanding of the make-up of our responsive repairs. Every six months we produce a report that identifies the households ordering the highest number of repairs and a report that identifies the properties where we are spending the most on repairs. We agree an action plan to reduce responsive repairs demand and repair expenditure in these households. We have also produced a wider 15 point plan for reducing repair demand and repair expenditure over the next 12 months which we will monitor and develop as required to ensure it meets this aim.

B2 Return on individual properties

Soha has a good understanding of our properties and regularly reviews expenditure and demand on different types of properties and geographical areas.

We understand the financial benefit of each of our properties to our business in the long run on a social housing basis. We have a formal valuation carried out by external valuers based on the Existing Use Valuation – Social Housing (EUV-SH).

The valuation methodology measures the net income per property over its lifetime and provides a net present value. Average EUV-SH value of the general needs housing is increasing, hence the increase on our return on assets. The average valuations per property are:

- 2009 - £54,460
- 2012 - £59,213
- 2015 - £67,310

The latest valuation was carried out in March 2015. Our policy is to carry out property valuations every three years as per the requirement of the loan agreements with all the lenders. With one lender we are required to carry out an annual desktop valuation. This was carried out for 31 March 2017 and has shown that the average property value on an EUV-SH and Market Value Subject to Tenancies (MV-STT) basis of £74k and £152k have increased to £79k and £163k respectively, thereby notwithstanding the rent decrease announced in the 2015 Budget, demonstrating the continued increase in return on assets.

A. Housemark comparisons

To enable a good understanding of costs and comparative costs of service delivery, Soha has been a member of HouseMark, the social housing sector benchmarking service, since 2000.

The latest available HouseMark benchmarking report is for the financial year ended 31 March 2016. In addition to the standard benchmarking report, Soha has asked for a bespoke report which can be drilled down into 'cost code' information. Total operating cost for the Association was benchmarked against 20 southern based housing associations with between 2,500 and 10,000 properties.

Total operating costs are allocated into employee costs, non-pay costs and a reconciling item which includes impairment and depreciation. Employee costs and non-pay costs are further allocated into direct costs and overheads. Soha's position in comparison to the peer group's upper, median and lower quartile is shown in the table below. The costs in Table B reflect good VfM and where investment is made it is in line with tenant and business priorities.

Table B - HouseMark Benchmarking Data - Employee/Non-pay and direct services/overhead

	Peer group			Soha
	Upper	Median	Lower	
Total operating cost	£2975	£3237	£3610	£2894
Employee cost	£779	£888	£1151	£680
Direct services	£551	£665	£909	£474
Overhead	£208	£233	£281	£206
Non-pay costs	£1198	£1478	£1605	£1487
Direct services	£865	£1231	£1300	£1302
Overhead	£245	£295	£369	£186

Green	upper quartile
Amber	lower median/upper lower quartile
Red	lower quartile

Soha's total operating cost per unit is in the upper quartile. Overall employee cost is also in the upper quartile. Employee cost relating to the overhead was in the upper medium quartile in 2014/15 has improved and in 2015/16 has moved into the upper quartile. Non-pay costs are in the median quartile because of direct services. Where costs fall below upper quartile, further analysis is shown below in Table C.

Table C - Further analysis of costs

	Peer group			Soha
	Upper	Median	Lower	
Non-pay costs (direct services)	£865	£1231	£1300	£1302
Major repairs and cyclical	£396	£437	£723	£550
Response and voids work	£309	£250	£600	£556
Capital works cost	£493	£566	£752	£620

Amber	lower median/upper lower quartile
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Red	lower quartile
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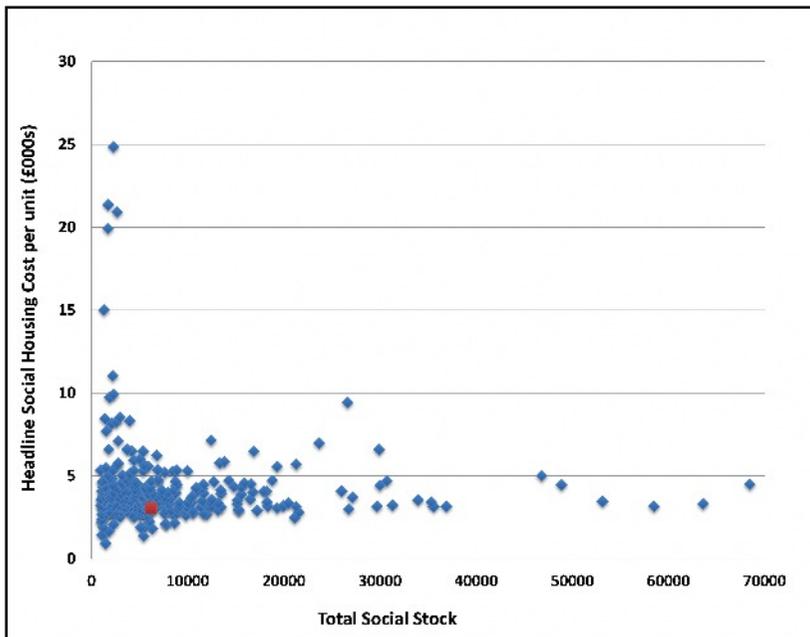
Overall, non-pay costs (see Table B) are in the median quartile. We note that non-pay cost overheads are comfortably within the upper quartile thus demonstrating good cost control and VfM awareness. The majority of expenditure in non-pay costs is in respect of 'direct services'. Indeed, over 85% of non-pay direct service cost is in respect of repairs and maintenance which demonstrates that Soha's investment in maintaining its current housing stock is in line with the average (including capital works costs) in the peer group and thus reasonable. Median quartile expenditure on repairs and maintenance per property is also in line with our objective around '*getting the basics right*' by investing in our housing stock and ensuring the quality of our homes into the future.

B. Global accounts comparisons

In order to fully understand comparative costs, the Association also used the data spreadsheet produced by the Homes and Communities Agencies (HCA) to inform the Global Accounts 2016 as a supplement to the HouseMark benchmarking data. Headline social housing lettings cost per social housing property managed by Soha was £3,040, which taking into account the differences in the methodology used by HouseMark, is close to and consistent with the Global Accounts. Sector level data for 331 housing associations is set out in Table D below.

	Cost per unit
Sector level data	£s
Upper quartile	£3110
Median	£3570
Lower quartile	£4340
Soha	£3040

The chart below also shows Soha's comparative position (highlighted red) in comparison to others in the 'Global Accounts'.

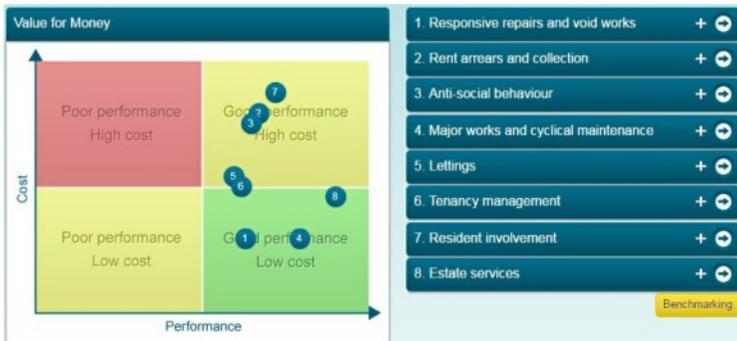


C. Housemark performance / cost comparisons

In addition to the pure cost analysis, Soha is clear that VfM is not about cutting costs, but about creating better value with the available resources. The following cost performance matrix demonstrates Soha's commitment to provide an excellent VfM service.

During budget setting 2017/18 and in previous years, Soha made extensive use of benchmarking data both the financial and qualitative. The graphic below shows service area by cost and performance during 2015/16. In some cases the performance measure contains as many as four different variables. In addition to budget holder input, the Directors, with reference to cost, re-allocated resource with the view to improving performance.

Peer Group (Housing Associations operating in the South East and West regions with between 2,500 – 10,000 units)



Areas of good performance

All service areas are in the good performance quadrant. The table below shows where the performance has improved from the prior year (2014/15)

Ref	Service Area
1	Responsive repairs and void repairs (performance improved from 2014/15)
2	Rent arrears and collection
3	Anti-social behaviour (<i>was poor performance prior last year; all indicators improved in 2015/16</i>)
4	Major works and cyclical maintenance
5	Lettings
6	Tenancy Management
7	Resident Involvement
8	Estate Services

Forward planning

Although VfM is well embedded in the Association at all levels, we continue to look forward towards making further improvements on both cost and performance by using benchmarking data and the better use of IT systems throughout the organisation, so that we continue to build on to our strong culture of VfM.

Soha aims to provide high quality services whilst maintaining reasonable costs and, where possible, driving down costs. Soha's operating costs are good as shown in the benchmarking above. Nevertheless, we continue to drive down costs where possible and this is set in a VfM framework that includes budgeting, procurement and day to day efficiencies. However, we do not want to risk under-investing in our assets and services.

We have a robust approach to budget setting with a zero base approach on controllable costs. Budget managers use this to identify and make year on year efficiency savings. Some savings are re-invested into service improvement or potential 'hotspot' areas, for example the risks around Welfare Reform.

As a housing association our two biggest costs drivers are our staff and expenditure on repairs and maintenance. We regularly review our staffing costs and ensure that we are effectively and appropriately resourced to deliver the objectives in our Corporate Plan. Our cost control and VfM strategy on repairs and maintenance expenditure is given below.

A. Cost and Income Gains in 2016/17

As set out in the 2015/16 VfM Statement, we have accessed finance at good rates, including a loan from SODC and we continue to benefit from this. Interest cost savings on the SODC loan compared to the average weighted fixed rate payable is £109K per annum.

As highlighted above in section D1, we have a robust approach on asset management; high value properties, high void cost and low SAP rated. Proceeds from sales in 2016/17 were £1.7m. In addition, receipts from other property sales were £7m, including £5m from the sale of a student accommodation block. All sales proceeds are re-invested into providing new homes.

At Soha, 23% of our expenditure is on staffing and we have demonstrated above under HouseMark comparison that our employee costs are well within the upper quartile at £680 per unit (2015/16: £691 per unit). In addition to cost control we pride ourselves on delivering an excellent service. We have procured and are in the process of implementing a new IT system, which will increase our efficiency in the long term. As reported in 2014/15, in the short to medium term we do not expect to see a reduction in our established staffing base. Indeed, with the expected changes to welfare reform and the measures introduced in the 2015 Budget, we still expect that staffing levels may have to increase somewhat to ensure that the quality of the service is maintained. This is in the context of a strong increase in stock growth.

In terms of non-pay costs, over 72% relate to the provision of repairs and maintenance. All of Soha's maintenance is delivered via external contractors. As highlighted in our previous VfM statement, contracts are subject to regular retendering to ensure that we get the best VfM possible. The majority of the contracts are for a duration of three years

or more to ensure competitiveness and service continuity. As most major contracts were awarded in the last few years, only one contract was retendered during 2015/16. The actual savings are given below.

Responsive repairs and planned maintenance

In our 2015/16 VfM Statement, we reported actual savings realised from our new repairs contract of £500k. These savings continued to materialise in 2016/17. In addition to the cost savings, we also realised non cost savings, which can be summarised as:

- Contractor has no automatic right to an annual inflationary increase.
- Improved contract KPIs and set more challenging KPI targets to bring contract in line with Housemark key KPIs and tenants expectations.
- Reviewed and improved the existing schedule of rates to make them more all-encompassing (to reduce variations) and reduced unit rates where they are high compared with others.
- Contract specification and standards enhanced following tenant workshops and consultation.
- Made it a requirement of the contract that the contractor train apprentices throughout the Contract term.

A number of planned maintenance services were retendered in 2015/16; windows, doors, kitchens, bathroom, gas heating & servicing and rainwater goods. For all the tenders we moved from an annual RPI uplift to a CPI linked increase. There was around 1% difference between the RPI and CPI rate used for the annual uplift. As the total expenditure for all projects in 2016/17 was £3.7m (2015/16: £3.3m), we estimate that we saved around £37k (2015/16: £33k).

Total gains during 2016/17, taken together with the year on year gains identified in previous years is £2.3m (6.5% of turnover from social housing lettings).

B. Estimated Cost Gains in 2017/18 and beyond

As stated above, Soha contracts are subject to regular retendering to ensure that we get the best VfM possible cost savings and that the majority of the contracts are for a duration of three years or more to ensure competitiveness and service continuity. Hence it follows that cost savings can only be achieved in years that contracts are subject to tender.

The overall budget for 2017/18 is £19.8m of which £4.6m relates to staffing, leaving £15.2m for general expenditure. Of the £15.1m, £9.1m is in respect of 19 contracts.

By going out to tender in these major areas, 60% of our non-staffing expenditure is subject to competitive tender, hence demonstrating that we are achieving the most competitive price available for the level of service required.

As all of our maintenance is carried out by external contractors, further value for money gains are anticipated during the re-tendering of major contracts, which are given below:

Table G - Maintenance contracts			
Service area	Contract value per annum	Tender year	Period work carried out
Re-roofing	£450k	2017-18	2018-19
Replacement rainwater goods	£160k	2018-19	2019-20
Gas heating installations	£950k	2018-19	2019-20
Windows and doors	£680k	2018-19	2019-20
Cleaning contract	£200k	2018-19	2019-20
Responsive repairs and voids	£3.1m	2019-20	2020-21
Kitchens	£850k	2019-20	2020-21
Electric heating	£340k	2019-20	2020-21
Ground maintenance	£300k	2019-20	2020-21
Asbestos testing and removal	£160k	2020-21	2021-22
Bathroom	£700k	2020-21	2021-22
External work	£440k	2020-21	2021-22
Electrical testing	£230k	2020-21	2021-22

Soha's Corporate Plan for 2016-17 sets out how investing in Resident Involvement helps us to achieve our aims:

- Get the basics right
- Be a housing provider of choice
- Help tenants thrive not just survive
- Help build strong, sustainable communities
- Know our customers individually
- Have the right staff, right training, right tools
- Listen to, involve and empower residents
- Have financial strength and independence

Using outcomes identified by the **Investing in Involvement** framework and developed in-house, tenants and staff have assessed the cost and impact of resident involvement activities for the two years 2015-17, as well as the opportunities for improving on this. Please see our involvement page on the Soha website for more information about resident involvement.

When reviewing involvement for 2014-15, tenants and staff made recommendations to improve. Here's what we've done as a result.

1 Fewer surveys and more targeted evidence gathering for decision making

We've reviewed the use of surveys, reducing the number we run. There is more to do on this.

2 Reduced the costs and clarify the benefits of the Annual Report

Working with residents, we reduced the paper Annual Report and received great feedback on this approach.

The cost was reduced by half (for production) and in full for mailing (by including with our residents' magazine). We used the savings to produce a campaign to tackle negative stereotypes of social housing tenants; #RealPeopleTrueStories has reached many people via social media and the films have had more than 2700 views.

3 Built on the potential for more individual benefits in neighbourhood activities

By focusing on particular areas, we have been able to develop far more individual benefits in neighbourhood activities. A particularly good example is a learning hub set up by Soha tenants following a course we supported in their village. The knock on impact has been learning opportunities for another 30 residents.

4 Built better communications between co-regulation tenants and staff

The involvement of staff at co-regulation events helps to build better communications. However, we feel there is still more to do and will work on other channels for communication and will keep improving the already good working relationships.

Resident involvement at Soha makes its biggest impact on:

Service improvements such as the Scrutiny Group recommendation to have an Occupational Therapist in-house. This has reduced the waiting time for home adaptations for disabled tenants and also reduced costs as a better long-term solution is more often proposed, meaning fewer adaptations and less disruption for people.

Community Benefits including the group of tenants in Cholsey who set up a learning hub, following a course supported by Soha. They have gone on to provide training and peer support for many more people in their local community.

Individual benefits which include the social networks which are built through getting involved and people building their confidence to speak out and lead groups.

Governance, particularly through the co-regulation structures which see tenants regularly reporting directly to Board and Audit Committee, giving their views on service provision and decision making.

We believe all of the above contribute to the high levels of tenant satisfaction with Soha's services. 92% of tenants are satisfied with Soha overall – this is our best result to date.

What now?

Tenants and staff involved in this review feel there are more opportunities for communications with all Soha residents, particularly through using social media and online engagement. However, they do not want to see digital involvement replace traditional forms of engagement where these are more appropriate.

We are excited about the current consultation to open up membership to tenants and feel this will further enhance the impact of involvement. Clear measures for the impact of membership are being developed and will be included in the 2017-18 Investing in Involvement statement.

This statement demonstrates that Soha is compliant with the required outcomes of the Value for Money standard.

In terms of specific expectations, Soha's Board takes a robust approach on decision making on the use of resources to deliver the objectives in the Corporate Plan and provides a strong lead on Value for Money and the concept is well embedded in the organisational culture at all levels from staff to tenants. Involved tenants play an important role in helping decision making and providing assurance through co-regulation activities.

The Board is fully assured that Soha has:

- a good understanding on return on assets (section 2.2a of the Standard) as demonstrated in section 2 of this statement;
- comprehensively set out the absolute and comparative costs of delivering specific services (section 2.3b of the Standard) as provided in section 3; and
- evidenced how VfM gains have been and will be made and how these will be realised over time (section 2.3c of the Standard) as highlighted in section 4 of this statement.

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