

Value for Money Assessment

Value for Money Commitment

Hastoe's commitment to value for money (VFM) is driven by an awareness of the responsibility to use its assets and resources wisely, to protect its long term future and to provide current and future customers with high quality homes and services.

Value for Money Framework

The Group has a strategic approach to VFM that is driven by the corporate plan. The corporate plan has a clear focus on VFM which underpins the vision and five key strategic ambitions. The corporate plan actions feed into personal objectives so that every member of staff is aware of their role in achieving Hastoe's vision. There is also a framework of strategies which together with the financial plan, a robust budgetary process and a project appraisal mechanism, ensure that assets and resources are allocated in the most appropriate way. The allocation of assets and resources includes consideration of the potential opportunity costs.

Performance targets are derived from the corporate plan. VFM is embedded in the robust performance management process, which is in place to drive continuous improvement. Non-financial and financial performance is reviewed monthly by the Executive and quarterly by the Board. Hastoe uses benchmarking to assess its performance relative to peers.

The VFM strategy is approved by the Group Board, who also monitor performance on VFM in order to gain assurance that the strategy is being delivered. The VFM strategy is available on the Hastoe website at www.hastoe.com/page/289/Annual-reports-and-other-publications.aspx

Value for Money Results

VFM Gains

Over the last five years, the Group's turnover has increased by around 30%. This period of considerable growth has been managed effectively, with a trend of improving operating margins and performance indicators. Costs have been very tightly controlled and kept within an agreed financial management framework, so that the Group's operating margin (excluding the gains from the disposal of properties) has increased from 31% to 44% over the same period.

The Group's operating margin (excluding the gains from the disposal of properties) of 44% compares favourably with the sector average of 28%² and the median of 30%¹ for Moody's rated peers.

Hastoe does not distribute dividends to shareholders. The surplus made each year is reinvested in existing homes or used to build new homes. The reduction in the levels of capital grant made available by Government means that the Group has to borrow more for each new home it builds. The significant improvement in efficiency, as demonstrated by the improvement in operating margins, has increased the Group's ability to service higher levels of debt and allowed it to build approaching 1,000 new homes in the last five years.

This ability to maximise borrowing capacity to deliver against ambitions compares favourably with the sector, as shown in the table below.

Financial indicators	2016/17 outturn	2015/16 outturn	Moody's rated peers median	Sector average
Operating margin (excluding the gains from the disposal of properties)	44%	38%	30% ¹	28% ²
Debt : revenue	6.5	6.6	4.0 ¹	3.4

¹ Moodys: 2016 Results: Continued Focus on Market Sales Elevates Risk

² HCA 2016 Global Accounts of Social Housing Providers

There were a number of VFM plans identified in last year's assessment that have been achieved in 2016/17, including:

- The Group achieved an operating margin (excluding gains on property disposals) of 44%, comfortably top quartile compared to the Sector.
- Social rent arrears were reduced to 2.1% from 2.4% and were well within the top quartile.
- Leasehold service charge arrears were reduced dramatically from 21% to 8%.
- Satisfaction with Hastoe's customer contact centre reached 95% against a target of 93%.
- Renegotiating utility contracts contributed to a 17% cost saving.

There were also areas where progress has been made but further work is required to deliver the planned outcomes, including:

- The average cost per responsive repair fell from £144 to £138. However, satisfaction with the last repair undertaken of 78% was below the target set of 89%.
- Rent payments taken via the website, rather than over the telephone, increased by 13%, less than the ambitious target of 40%.
- 11% of calls to the customer contact centre were potentially avoidable. The target was to reduce this level to less than 7%.

Return on Assets

The Group appraises the financial, environmental and social returns of its assets, along with their strategic fit. Informed decisions are then made about whether stock should be retained, refurbished, converted to a different tenure or sold. The objective is to optimise future returns: financial, environmental and social.

Hastoe's asset management strategy includes a plan to sell around 20 urban social rented properties per year on the open market, as they fall vacant. Selling the homes with vacant possession increases their value and provides a subsidy for future development programmes. The sales achieved in 2016/17 are expected to provide sufficient subsidy to build 2.6 new homes for each home sold. The properties that have been prioritised for sale are either in high value areas or areas that would benefit from a change in tenure mix.

The Group uses the SDS Catalyst benchmarking club as part of its assessment of the VFM of its development costs. Hastoe's build costs are comparatively high, due to its focus on high quality and sustainability standards. Fuel poverty is higher in rural areas than in urban areas, particularly in rural areas off mains gas supply. In addition, rural build sites are often small scale and require extra design specifications to blend in with their surroundings. These higher costs are offset by lower land costs – on exception sites the value is at an enhanced agricultural value rather than full residential values seen within development boundaries. Effective procurement ensures that build costs are minimised.

Return on Assets - Financial

The table below sets out the gross yields delivered by Hastoe's main business streams. The gross yields are calculated on an estimated open market value. Estimated market values have been obtained for around 75% of properties and so the average results below are extrapolated.

	2016/17 Average Gross Yield	2016/17 Highest Gross Yield	2016/17 Lowest Gross Yield	2015/16 Average Gross Yield
Social rent	2.8%	6.6%	1.3%	3.3%
Affordable rent	3.4%	5.4%	1.7%	3.9%
Shared ownership	2.3%	5.5%	1.0%	2.6%
Market rent	4.2%	4.7%	3.4%	4.4%

The range in yields is driven mainly by location, the number of bedrooms and length of tenancy / ownership. In addition to the average 2.3% gross rental yield from shared ownership, first tranche sales provided a 33% return in the year (2016: 24%).

The average gross yields across all of the Group's property types are lower than in 2015/16. A more detailed review by a third party qualified surveyor, including external inspections and a sample of internal inspections, has resulted in the estimated open market values being on average 15% higher than assumed in 2015/16, with the result that the gross yields have fallen.

The urban social rented units, identified for potential sale on the open market as they fall vacant, tend to have relatively high market values and relatively low gross yields.

Hastoe's small market rent portfolio has a gross yield of 4.2% (2016: 4.4%). Due to the relatively low return, and the fact that it is not a core activity, the properties are being sold when they fall vacant.

The Group also has a portfolio of 1,910 ground rent units that generate a 6% return and dilute Hastoe's debt per unit banking covenant, thereby creating further financial capacity for the Group.

Return on Assets - Environmental

The Group has a strategic ambition to protect the environment. Hastoe builds its new properties to high environmental standards and has developed the 'Hastoe Green Homes Standard' as an aspirational target for all its existing homes.

The average SAP rating (a measure of a home's energy and environmental performance) for the Group's properties rose to 75.6 at 31 March 2017 (2016: 74.9), which represents upper quartile performance for the Sector (Housemark 2015/16). Research published in 2016, by Sustainable Homes Limited called 'Touching the Voids', established a correlation between properties with higher SAP ratings and those with lower void and arrears levels.

At 31 March 2017, 644 of the Group's homes remained below the 'Hastoe Green Homes Standard' (HGHS). A key attribute of homes that meet the HGHS is a SAP score in excess of 69. To ensure value for money, the Group uses a methodology which assesses each investment option, and the external funding available, to maximise the improvement in SAP rating for each pound spent.

The investment in improving the environmental standard of the Group's homes has utilised, where possible, grants and other external funding sources to maximise the return for Hastoe. The 637 photo voltaic panel installations on Hastoe's properties reduce the fuel bills of residents and generate a financial return from the feed in tariff. ECO and CERT funding have been used to insulate 1,250 homes, over the last eight years. The 223 ground source heat pumps installed by Hastoe produced income from the Renewable Heat Incentive of £146,000 in 2016/17.

The majority of the new homes built in the period have met the the AECB Silver standard. These homes, along with Hastoe's award winning Passivhaus schemes, meet the Group's aims of addressing fuel poverty and protecting the climate.

Sustainable Homes Limited was established by the Group to further its work on driving up environmental sustainability standards in the housing sector. Sustainable Homes Limited is one of the United Kingdom's leading providers of sustainability advice, benchmarking services, influencing and training. Its benchmarking service (SHIFT) is used by over 60 housing associations.

Return on Assets - Social

One of Hastoe's key ambitions is to work for and with rural communities. As a result, it tries to evaluate how its investments improve the economic, social and environmental well-being of the communities in which it works.

The National Housing Federation, in its 'Homes Truths 2013-14', stated that for every £1 spent on housing, £2.41 is generated in the wider economy and every new home creates 2.3 jobs. By building new homes in rural areas, Hastoe is helping keep local businesses and rural communities alive.

Hastoe has worked with Rural Housing Alliance members to pilot a framework to determine the Social Return on Investment (SROI) of providing homes for local people in rural areas. The impact of Hastoe's new build properties was assessed in two locations. The average social return was £12.22 for each £1 invested.

Feedback from occupants and local communities, directly inform the design standards of the homes the Group builds. In 2016/17, the Group delivered 130 new homes in rural communities.

Initiatives focussing specifically on supporting residents, such as money advice and improving homes with Green Doctor visits delivered over £222,000 of additional income for them, mostly through increased benefit payments and energy savings. Maintaining existing citizen advice bureaux (CAB) partnerships and establishing new ones was a substantial focus for the year. CAB partners advised the Group's residents on debts in excess of £213,000 during the year.

Service Performance and Costs

The key operational indicators used by the Board and executive management to monitor achievement of the Group's objectives are set out below. The Board agrees targets each year that are designed to manage performance and deliver continuous service improvement. Where a benchmark is available, Hastoe was in the top quartile for all its key performance indicators except one.

Performance indicator	2016/17 outturn	2016/17 target	Benchmark (where available)	2015/16 outturn
Telephone callers satisfied with the way their call was handled	95%	93%	-	95%
Satisfaction with last repair	78%	89%	96% ¹	85%
Re-let times (excluding major works)	15 days	18 days	19 days ¹	20 days
New let times	2 days	3 days	-	3 days
Current rent arrears – social housing properties	2.1%	2.8%	2.8% ¹	2.4%
Rent arrears – shared ownership properties	1.2%	1.5%	-	0.9%
Void losses	0.3%	0.4%	0.5% ¹	0.4%
Gas safety compliance	100%	100%	100% ¹	100%
Homes meeting the Decent Homes Standard	100%	100%	100% ¹	100%

¹ Housemark Core Benchmarking report 2015/16 – top quartile

Customers have previously indicated that the telephone is their preferred method to contact Hastoe. Satisfaction with customer contact centre remains high, with 95% (2016: 95%) of customers being satisfied with the way their call was handled. As part of the continued drive to improve efficiency, the Group is investing in new IT systems that are expected to go live during early part of 2018/19. Targets will be set for 2018/19 to increase usage of the Group's on-line services by residents, with a resultant reduction in calls to the customer contact centre.

An ongoing focus on the effective procurement for repair contracts has continued to lower the average cost per repair order. The average for year was £138, as compared to £144 in 2015/16 and £170 in 2014/15. The improvement has also been driven by a detailed analysis of the 200 homes with highest repair costs. This work was highly commended at the 2017 Housing Excellence Awards.

Whilst repair costs have fallen, satisfaction with the repairs has remained below the targets set. Hastoe will continue to work with its contractors to deliver improvements to this service.

There was a further improvement in the year in the collection of current rent arrears from social housing properties, with arrears of 2.1% representing top quartile performance. The low level of arrears will help residents prepare for the further cuts to welfare funding and the introduction of Universal Credit. Hastoe offers a wide range of welfare benefit and financial management advice and continues to work closely with a number credit unions and similar organisations.

Shared ownership arrears rose slightly in the year to 1.2% but were still well within target. The Group's void losses are consistently well below the sector average and within the top quartile. Re-let times improved significantly during the year, averaging only 15 days, which was comfortably in the top quartile compared to the sector.

Social housing lettings costs	2016/17 outturn	2015/16 outturn	2015/16 Benchmark ¹
Operating cost per unit	£2,747	£3,060	£3,970
Management cost per unit	£628	£686	£1,080
Maintenance cost per unit (including capitalised repairs)	£1,466	£1,584	£1,900
Service charge cost per unit	£185	£179	£530

1. HCA Global Accounts 2015/16

The decrease in operating cost per unit, compared to 2015/16, was in part due to the £186 per unit charge in 2015/16 as a result of an increase in the pension provision.

The Group's operating cost per unit compares favourably with the average for the Sector¹, due to lower management, maintenance and service charge costs per unit. Hastoe's rural properties, which account for more than half of its social housing, tend to require fewer services than urban social housing. The Group's management model provides an efficient and effective response to the dispersed nature of its stock. A relatively high proportion of Hastoe's social housing units are occupied by shared owners (21%), who are responsible for repairing and maintaining their home. This contributes towards the lower maintenance cost per unit that the average in the Sector.

The Homes and Communities Agency's publication 'Delivering better value for money: Understanding differences in unit costs' compared Hastoe's operating costs to those of the Sector. Hastoe's overall costs, management costs, and service charge costs were all in the best performing 25%.

Value for Money Plans

The Board has set a number of VFM objectives for 2017/18 including:

- Continue to achieve an operating margin that is top quartile compared to the sector.
- Successfully implement the new housing management system on budget and by 31 March 2018.
- Complete Hastoe Housing Association's transition to charitable status and set up a new subsidiary to undertake non-charitable activities. The structure is designed to maximise Hastoe's capacity to build new rural homes.
- Maintain top quartile performance on social rent arrears and see continued improvement in the level of leasehold service charge arrears, with targets of 2.6% and 6% respectively.
- Maintain reduction in the responsive repairs cost per order achieved in 2016/17 and increase satisfaction with the last responsive repair to 84%.
- Reduce build costs, excluding abnormals, per square metre by 5% (in real terms) as compared to current design standard.
- Invest in a further 70 existing homes, to raise them to the Hastoe Green Homes Standard.

Achieving VFM is an ongoing process and it is the Board's responsibility to drive continuous improvement in the use of the Group's assets and resources. This approach to VFM will enable Hastoe to maximise its potential to provide its customers with high quality homes and services.