Hexagon Value for Money Strategy 2014-17

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Appendices

1 Introduction

1.1 One of Hexagon's six major corporate objectives is 'to be cost effective, efficient and competitive' – to achieve value for money in our delivery of services.

1.2 This is important because:

- Residents pay their rent and service charges in the expectation that we will make the best use of these to fulfil Hexagon's objectives;
- Our main source of income (social housing rents) is currently constrained by a formula that links it to inflation +0.5%[1]. We have to ensure that other costs rise by no more than this every year to secure Hexagon's long term future; and
- Our regulators place great emphasis on value for money and require Hexagon to report on value for money every year as part of the annual report to residents.

1.3 The specific requirements of regulatory standards require Hexagon to:

- Have a robust approach to making decisions on the use of resources to deliver its objectives, including an understanding of the trade offs and opportunity costs of its decisions;
- Understand the return on its assets, and have a strategy for optimising the future returns on assets – including the rigorous appraisal of all potential options for improving value for money including the potential benefits in alternative delivery models – measured against the our purpose and objectives;
- Have performance management and scrutiny functions which are effective at driving and delivering improved value for money performance; and
- Understand the costs and outcomes of delivering specific services and which underlying factors influence these costs and how they do so

1.4 Hexagon's Board must demonstrate to stakeholders how they are meeting this standard. As part of that process, on an annual basis, Hexagon must publish a robust self assessment which sets out in a way that is transparent and accessible to stakeholders how we are achieving value for money in delivering our purpose and objectives. The assessment must

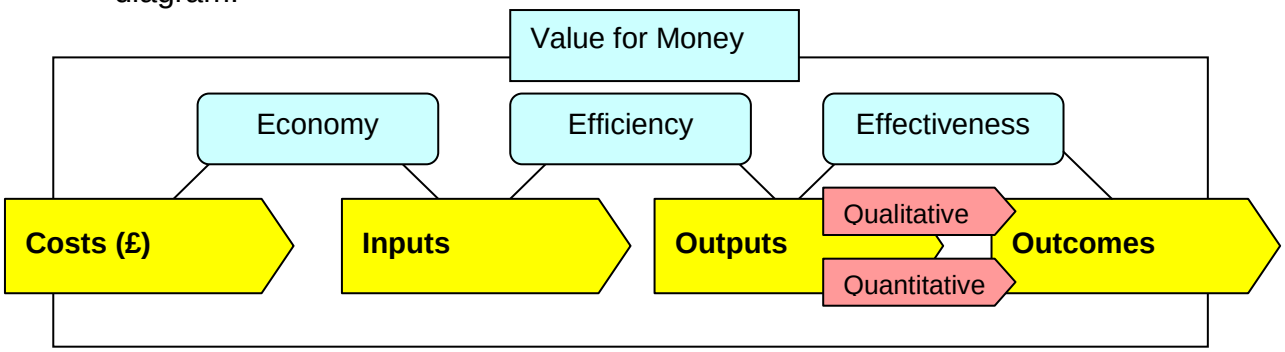
- Enable stakeholders to understand the return on assets measured against Hexagon's objectives;
- Set out the absolute and comparative costs of delivering specific services; and
- Evidence the value of money gains against those that have been and will be made and how these have and will be realised over time.

[1] This will change to CPI plus 1% from 2015/16

2 Hexagon's Approach to Value for Money

2.1 What is Value for Money (VFM)?

2.1.1 Hexagon has adopted a definition of VFM as the relationship between economy, efficiency and effectiveness, as illustrated by the following diagram:



2.1.2 ***Economy*** is the price paid for what goes into providing a service, for example, the build cost of new homes per square metre.

2.1.3 ***Efficiency*** is a measure of productivity – how much you get out in relation to what is put in. For example, the efficiency of services such as rent collection may be measured by the cost of the service compared to the rent roll. Similarly, tenant participation costs may be expressed as an annual sum per tenant. Efficiency is primarily associated with the process and delivery of procurement.

2.1.4 ***Effectiveness*** is a measure of the impact achieved and can be quantitative or qualitative. For example, how many people gained employment through using our community investment service (quantitative); satisfaction levels among different sections of the community with tenant participation arrangements (qualitative), and so on. Outcomes should be equitable across communities, so effectiveness measures should include aspects of equity. Effectiveness is primarily associated with the outcomes for customers.

2.2 VFM is high when there is an optimum balance between all three – relatively low costs, high productivity and successful outcomes.

2.3 How does Hexagon seek to achieve and monitor VFM?

2.3.1 Hexagon adopts a number of techniques to achieve VFM:

- Working to a **corporate plan** which sets out corporate objectives for the forthcoming three years;
- Using a **financial business plan** to test the financial feasibility of major decisions;
- Setting an **annual budget** which reflects the corporate objectives and is in accordance with the financial business plan;

- Undertaking **service improvement reviews** which look at a service from the view of the customers for that service;
- Using a **procurement strategy** to help ensure that there is a co-ordinated and effective procurement process for all aspects of the business;
- Having a clear **asset management strategy** to ensure that we make the best use of our housing assets;
- **Maximising our income**, subject to our social objectives;
- Working to a defined **treasury management policy** to ensure that borrowing costs and risk are efficiently managed;
- Improving our **business systems** through the use of information and communications technology (ICT); and
- Understanding and managing business **risks.**

More detail on each of these is given in Appendix 1, p23.

2.4 The VFM strategy for 2014-17 builds on this approach and on the successful features of the 2011-14 VFM strategy. This latest strategy considers:

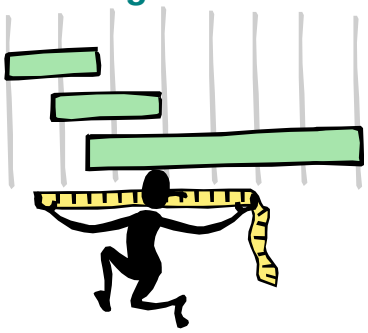
- How we did in 2012/13 compared to our peers[2];
- Trends in cost per home since 2006/07[3];
- Which areas we want to focus on;
- Where we want to be (with measurable outcomes); and
- What actions we will take to get there.

2.5 The strategy also addresses:

- Maximising returns on assets, subject to our charitable objectives;
- Ensuring that VFM is embedded in the way we do things; and
- The difference residents will see as a result of this strategy being achieved.

3 How are we doing compared to our peers? HouseMark and Other Benchmarking Data

3.1 Hexagon uses HouseMark to benchmark general needs and overhead activities. Hexagon has led on benchmarking treasury management within the L9 peer group. Activity-specific benchmarks are used where these are available such as DLA Piper, which is used by Human Resources.



[2] 2012/13 is the most up to date HouseMark data available at the time of writing this strategy.
[3] This is our third VFM Strategy and we have been collecting this data set since then.

3.2 The results of HouseMark benchmarking for 2012/13 (see Figure 1, below) indicate that, compared with similar sized London Housing Associations[4], on the basis of the HouseMark dashboard[5], Hexagon

- Performs well and has low costs in relation to
  - Rent arrears and collection;
  - Tenancy management; and
  - Estate services.
- Has low costs but poor performance in relation to
  - Responsive repairs and void works;
  - Major Works and cyclical maintenance; and
  - Lettings.
- Has poor performance and high costs on resident involvement.

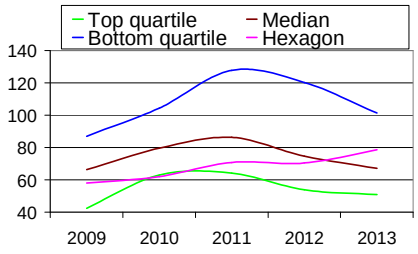
Figure 1 - HouseMark Dashboard for Hexagon compared with London Housing Associations with less than 7500 homes in management

3.3 Two observations are worth making on this relative performance and the data behind it as this will have an impact on the areas that this Strategy will cover, which is considered in section 4, p6:

- Estate Services – this is only in the green quadrant because HouseMark uses satisfaction with the neighbourhood as the quality measure, if a rating of the service was used this would move Hexagon to the left into the 'poor performance' quadrant; and

[4] This is the most useful of the preset benchmarking groups that HouseMark provide, it should be noted that elsewhere in the report the benchmark is a larger group of all London housing associations.
[5] Hexagon also utilises a large amount of other HouseMark data to help us better understand our relative performance

- Resident Involvement – Hexagon regards expenditure on resident involvement as a good thing, and has explicitly resisted the trend elsewhere in London, based on HouseMark data, (as shown in the graph to the right) to reduce expenditure in this area.



3.4 On overheads, we have compared Hexagon's costs to those of 32 other social landlords based in London. We perform well in terms of cost per user (See Appendix 2, p28, for more details).

3.5 On Treasury Management, HouseMark shows that Hexagon has a better than average interest rate payable (expressed as average cost of capital).

3.6 **Trends in cost per home**

3.6.1 Hexagon aims to ensure that costs per home in management rise by no more than RPI inflation plus 0.5% a year (CPI plus 1% from 2015/16). Using 2006/7 as a baseline[6], we have been able to show (see graphs in Appendix 3, p29) that almost all areas of operating cost have met this target in the past.

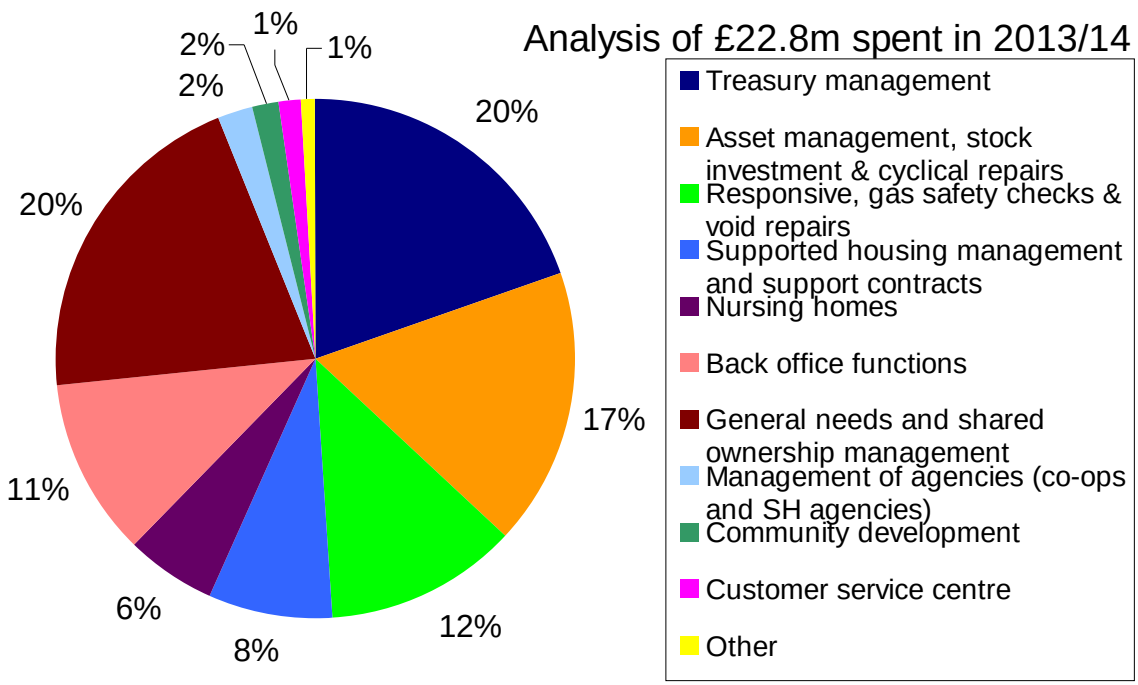
3.6.2 The exceptions are

- Repairs to void properties (see Appendix 2, Graph 3; p30); and
- Stock improvement work per property (see Appendix 2, Graph 5
- p31) – however, this was from quite a low base in 2006/07.

4 The Areas the Strategy Will Focus On

4.1 Taking account of both capital and revenue expenditure in 2013/14, Hexagon spent £45.3m, of which the largest item, (£22.5 m) was on building new homes. The graph below shows that the next largest 4 spending departments (treasury management, stock improvement, responsive repairs and housing services) together account for 69.6% of the remaining £22.8m expenditure.

[6] See footnote 3, p4



4.2 The figures underlying the graph are shown in Appendix 4, p35.

4.3 The previous, 2011-14, version of the Strategy focused on five main areas:

- Development and New Business;
- Treasury Management;
- Asset Management , Stock Investment and Cyclical Repairs;
- Responsive, gas safety checks & void repairs; and
- Directly managed Supported Housing (both housing and support).

4.4 The 2014-17 VFM Strategy will keep much of this same focus:

- With the first four of the areas in 4.3 being retained;
- Supported Housing (both housing and support) - as Hexagon has consciously reduced its activity in Supporting People funded work, this area has been reduced to focus on
    - Supported Housing Voids where performance still needs to be improved; and linked to this
    - The management of the supported property portfolio and ensuring that there remains a medium term use for it.
- Estate Services – as noted in 3.3, p5, but for a different indicator being used by HouseMark, Hexagon would be in the low cost, low performance quadrant – as this is a service area experience by around half of our residents we feel that this is an important area to include.

4.5 We are not specifically looking at back office functions, including Directorate, Human Resources, Premises and the Finance and IT teams,

as part of this Strategy. However, benchmarking data from HouseMark (see Appendix 2, p28) shows that Hexagon's costs compare well with others:

- Finance and 'Other' central services, which includes policy, performance and communications, are in the lowest quarter in terms of cost per user;
- IT Costs are in the second quarter; and
- Premises costs are in the third quarter.

4.6 The number of central service users reduced over the last few years, mainly as a result of decisions to

- Largely withdraw from the provision of support; and
- Transfer Hexagon Repairs Team, our DLO, to a contractor.

4.7 The structures of all central functions have been reviewed over the last three years as a result of the reduced number of service users:

- A review of HR and Admin staffing structure led to a reduction in staff costs of 20%; and
- A review of Finance staffing structure, led to a reduction in staff costs of 12%.

5 Development & New Business

5.1 Targets for the key quality indicators and cost and efficiency targets indicators are as listed below. The latter have been split, one for the 2011/14 programme and one for the 2015/17 programme.

Quality targets	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2014/15	2015/16	2016/17
Resident satisfied with their new home	82.5%	94.8% (median 92%	86%	89%	92%
Shared Owners satisfied with the sales process	83%	None available	85%	87%	90%

Quality targets	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2014/15	2015/16	2016/17
Residents satisfied with way last defect deal with	69%	96.6% (median 86.8%)[7]	76%	84%	90%
SAP (energy efficiency) rating	83	None available	85 with no more than 10% <80		

Cost & efficiency targets - 2011/15 Programme	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2014/15
Build costs per m2 gross floor area for units not purchased off the shelf	£1530/m²	None available	Less than £1550/m²
Total scheme costs (excluding interest) as % of that approved by Risk Appraisal Panel at start on site[8]	99.94%	None available	Less than 100%
Timeliness of practical completion (PC)	No interim measure	None available	All reach PC by end of year

Cost & efficiency targets – 2015/18 Programme[9]	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2015/16	2016/17
Build costs per m² gross floor area for units not purchased off the shelf	£1530/m²	None available	Less than £1550/m²	Less than £1550/m²
Total scheme costs (excluding interest) as % of that approved by Risk Appraisal Panel at start on site[10]	99.94%	None available	Less than 100%	Less than 100%
Every scheme to have achieved start on site by 31/09/2016	69% (Sept 2013 for 11/15	None available		100%

[7] Based on last repair
[8] A weighted average of the total build cost divided by total number of units will continue to be used so that large schemes do not distort figures; off-the-shelf schemes are omitted from the calculation.
[9] The figures in this section may need to be adjusted once Hexagon has received confirmation of 2015/18 programme funding.
[10] See footnote 8

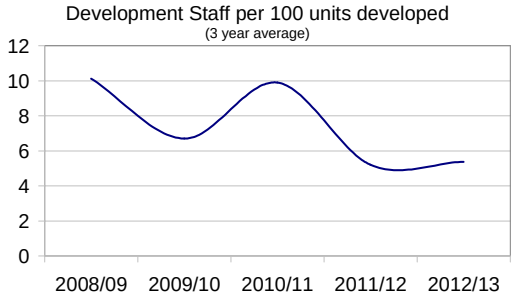
Cost & efficiency targets – 2015/18 Programme[9]	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2015/16	2016/17
	programme)[11]			
Staff per 100 units developed (3 year average)	5.38	2.74	At or above 3rd quartile	At or above 3rd quartile

5.2 **Actions planned to achieve the targets are to**:

- Undertake tenders with approved contractors wherever possible;
- Every scheme to have achieved start on site by September 2016;
- Implementing changes to the system for defects reporting and transferring the function to Customer Service, to provide a better resourced service;
- Use the HALA framework for solicitor appointments in order to obtain cost savings; and
- Implement online and well as telephone surveys to increase the amount of feedback from residents of new schemes.

5.3 **Actions already completed during the last strategy are as follows:**

- Revised the project brief to incorporate high SAP ratings including an express preference for composite windows;
- Reviewed the staffing levels needed to deliver programmes, has resulted in
  - a permanent reduction of 3 posts;
  - Outsourcing of the Clerk of Works function;
  - Outsourcing of shared ownership sales for a period of low handovers.



As the graph shows this has meant that Hexagon has almost halved the number of staff per 100 units developed since 2009.

6 Treasury Management

6.1 The target is for the weighted average interest rate on borrowings to be less than that assumed in the business plan for the next 3 years are listed below. It is assumed that interest rates will increase during the timescales

[11] The timescales were relaxed slightly for the 2011/15 programme

of this VFM Strategy.

Quality targets	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2014/15	2015/16	2016/17
Average borrowings (£'000)	£130,448	No benchmark	£148,642	£156,497	£165,393
Net interest payable (£'000)	£4,353	No benchmark	£5,391	£5,856	£6,878
Weighted interest rate	3.34%	3.7%[12]	3.63%	3.74%	4.16%

6.2 **Actions planned to achieve the target are to:**

- Set up at least one new ISDA line, to reduce the risk of cash calls if further swaps are needed;
- Arrange further funding facility by June 2016

6.3 **Actions already completed are as follows:**

- The treasury management policy amended to a more outcome based measure, rather than setting a target for the fixed proportion
- Cash flow forecast aligned with Sequel data from New Business and Development teams

7 Asset Management, Stock Investment and Cyclical Repairs

7.1 The targets and key quality indicators and cost indicators for Asset Management, Stock Investment and Cyclical Repairs are as follows:

[12] Based on HouseMark, the L9 group of medium sized housing associations had a slightly lower top quartile of 3.61%, both figures are for 21012/13.

Quality targets	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2014/15	2015/16	2016/17
Resident satisfaction with the work carried out - internal package	69.0%	No benchmark	73%	76.5%	80%
Resident satisfaction with the work carried out - all work	72.8%	No benchmark	75%	77.5%	80%
Resident satisfaction with cyclical painting	68%	No benchmark	72%	75%	78%
Resident satisfaction with quality of home	73.8%	81.2%	76%	79%	81%
Average SAP rating[13]	69	73.1	70	71	72
No homes with SAP rating <65 (excluding residents who refuse work)	1784	No benchmark	1384	384	0
Decent Homes Standard – no homes fail to meet the standard[14]	18 (0.5%)	0%	0%	0%	0%
20% of our stock will be inspected / reviewed every year to check on component life	27.2%	No benchmark	20%	20%	20%

Cost & efficiency targets	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2014/15	2015/16	2016/17
Cyclical commissioning cost per property (painting + gas servicing)	£54	£39	£50	£48	£47
Major Works - works costs per property – maintain current relatively costs	£581	£581	<= London top quartile	<= London top quartile	<= London top quartile

7.2 **Actions planned to achieve the targets are to:**

- We will aim to improve SAP rating improvements through a combination

[13] These figures are currently based on SAP 2005 data as this is slightly higher than the 2009 calculation and in benchmarking HouseMark do not distinguish between the two.
[14] Excluding those who refuse work, or units that fail due to the residents lifestyle rather than property issues

of internally funded work as well as accessing funding from central and London Government;

- Undertaking PDA based surveys of cyclical decorations to achieve a significantly better response rate and be able to deal with issues straight away and prevent them happening again in the programme;

7.3 **Actions already completed during the last strategy are as follows:**

- Roofing contract tendered via SEC procurement consortium and achieved savings of 39% compared with 2011/12;
- Retendering cyclical decorations contracts, again through SEC, to achieve savings of £315K;
- Undertaking a detailed analysis of increase in the cost of increasing SAP ratings via different forms of stock investment, to ensure that Hexagon maximises value for money on its spending whilst at the same time reducing residents' fuel bills;
- Agree a fee scale with consultants; and
- Retender aids and adaptations work.

8 Responsive, Gas Safety Checks and Void Works

8.1 The targets and key quality indicators and cost indicators for Responsive, Gas Safety Checks and Void Works are as follows:

Quality targets	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2014/15	2015/16	2016/17
Resident satisfaction with the repairs service	64.1%	77.5%	71%	74%	77.5%
Resident rating last repair 'good'	82.9%	94.5%	88%	91%	94.5%
Average end to end time for completion of repairs (days)	12.74	7.4	10	9	8
Percentage of current gas safety inspection certificates	99.7%	100%	100%	100%	100%
% repairs completed at	86.5%	92.5%	93%	94%	95%

Quality targets	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2014/15	2015/16	2016/17
first visit					
Average void 'turnaround' time standard re-lets days	39	23	28	26	23

Cost & efficiency targets	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2014/15	2015/16	2016/17
Responsive repair work cost per property – no more than £445 plus RPI per unit[15]	£404	£414	<=£445	<=£445 plus RPI	<=£445 plus RPI
Responsive repair management cost per property - 5% lower than median by end of strategy	£197	£156 (median = £191)	London median	2.5% lower than London median	5% lower than London median
Average Void Works costs – no more than 10% higher than London median by the end of strategy[16]	£2794 (16% higher than median)	£1915 (median £2403)	<=15% higher than median	<=12.5% higher than median	<=10% higher than median
Void Rent Loss	0.8%	0.54% (0.75% - median)	<0.80%	0.75%	0.70%
Cost per routine void under £2000	£1482	No benchmark	£1500	£1500 plus CPI since 1/4/14	£1500 plus CPI since 1/4/14
Cost per major works void over £2000	£3518	No benchmark	£4500	£4500 plus CPI since 1/4/14	£4500 plus CPI since 1/4/14

8.2 **Actions planned to achieve the targets are to:**

- Gas contract to be retendered through a procurement club in 2015/16;
- Increased volumes of post works satisfaction surveys using PDAs to better understand and be able to deal with service failures, learn from mistakes and improve performance;

[15] See 8.3 for reasons why we expect costs to rise on this
[16] See 8.3 for reasons why we expect costs not to fall significantly to start with

- A review of voids is planned for 2015 to look at
    - Where performance can be improved;
    - The costs and benefits for better software to help track voids.
- Improved reporting on void activity to effectively monitor void expenditure and manage performance; and
- Consolidating door entry systems, Legionella and water testing within one contract which should secure savings.

8.3 **Actions already completed during the last strategy – new Responsive Repairs and Voids Contract**

- New Responsive Repairs contract in place from 1 April 2014, which we expect will improve considerably the Quality measures during 2014/15 and beyond, as these deteriorated badly under the previous contractor who had decided not to re-tender;
- The downside of this will be costs, the previous contract had been tendered in 2009 when the market was in a downturn, the position was very different in early 2014 and responsive repairs costs will increase by 8.2%, voids at a slightly lower rate, as a result of the new contract; and
- New void standards in place with new contractor incorporating weekly meetings with surveyor and contracts manager to manage performance.

8.4 **Actions already completed during the last strategy - Other**

- Service contracts for specialist areas such as lift and Fire Safety services have been consolidated and retendered, and will see a 5% saving per year
- Improved performance on dealing with complaints – 88% achieved in 2013/14 (compared with under 50% 3 years ago)
- Maintenance variance reports used to understand and correct overspends;
- Procurement of the fencing programme streamlined; and
- A Repairs Panel of interested residents in place providing ideas on how to get value for money in repairs

9 Supported Housing – Voids & Making Best Use of Assets

9.1 The targets and key quality indicators and cost indicators Supported Housing are as follows:

Quality targets	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2014/15	2015/16	2016/17
Void turnaround unfunded voids (days)	94	No benchmark	35	34	33

Cost & efficiency targets	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2014/15	2015/16	2016/17
Rent loss due to empty supported housing properties (all)	12.6%	1.3%	5%	4.9%	4.8%
Rent loss due to empty supported housing properties (unfunded[17])	8.4%	No benchmark	4.3%	4.2%	4.0%
Any scheme with >=10% void loss[18] should be reviewed with the funder after each letting to • Learn for future voids; • Consider the medium term future of the scheme.	No baseline	No benchmark	All appropriate schemes reviewed.		
By the end of this strategy an Asset Usage Plan is developed for all SH schemes – looking at void losses, income, maintenance spend and future major works costs.	No baseline	No benchmark			Plan developed

9.2 **Actions planned to achieve the targets are to:**

- A Voids Action Plan for Supported Housing scheme has been developed;
- A review of voids is planned for 2015 to look at
  - Where performance can be improved;
  - The costs and benefits for better software to help track voids.
- Develop a brochure for Learning Disability Schemes to improve take up and reduce voids.

9.3 **Actions already completed during the last strategy are as follows:**

- Several short-life schemes were not extended as a result of concerns about their viability;
- Two hostels that Hexagon owned and were subject to high void levels have been sold;
- A sheltered housing scheme which was proving difficult to let is in the process of being sold to a local authority; and

[17] With some schemes, particularly those with learning disabilities, voids are 'funded' because it is recognised that the lettings process may take some time
[18] Excluding any 'funded' periods – see footnote 17

- The management of a learning disability scheme which had high voids levels has been taken over by an agency working with a different client group.

10 Estate Services

10.1 The targets and key quality indicators and cost indicators for Estate Services are as follows:

Quality targets	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2014/15	2015/16	2016/17
Resident satisfied with Estate Services	54.9%	81.5% (median 74.8%	65%	70%	75%
Residents Satisfied with Neighbourhood (STAR)	82.7%	84.2%	83.6%	84.2%	85.0%

Cost & efficiency targets	Baseline result (2012/13 or 2013/14)	Peer Group top quartile	2014/15	2015/16	2016/17
Cost per property of providing estate services no more than 70% of top quartile	52% (£107)	£205	<=70%	<=70%	<=70%
Average service charge[19] no more than 95% of the average for the boroughs Hexagon works in	88% (£8.18)	£9.25 (average)	<=95%	<=95%	<=95%

[19] Based on the NROSH data for the London Boroughs that Hexagon works in

10.2 **Actions planned to achieve the targets are to:**

- Retendering the Cleaning and Grounds Maintenance contracts with some enhancements of service delivery
- Employing an additional part-time member of staff to check on contractor performance

It is recognised that to improve the Quality indicators Hexagon will need to spend slightly more, although targets would keep Hexagon

- Better than the London Top quartile in terms of costs; and
- Keep service charge costs below the average for the Boroughs we work in.

10.3 **Actions already completed during the last strategy are as follows:**

- A major review of Estate Services which looked the reasons for low levels of satisfaction and produced a detailed Action Plan to improve performance

11 Maximising Returns On Assets, Subject To Our Charitable Objectives

11.1 Although Hexagon's assets include its staff, its information (including IT systems) and its main office building, its most significant asset by far is its housing stock (plus a small number of commercial properties). As a London-based organisation, our low social rents mean that any financial return on assets will look poor compared to the private sector; our ability to increase rents is limited due to the RPI plus 0.5% (CPI plus 1% from 2015/16) However, the social value we provide through low rents and a reliable maintenance service is immense. But we still try to ensure that we are making the best use of Hexagon's property assets.

11.2 At a high level as part of our annual Value for Money Self Assessment, we review the cost of Hexagon's property assets, net of grant and depreciation and the surplus as reported in our management accounts to derive a financial return on each type of property, before interest. This is then compared to the projected long term interest rate of our current loan portfolio. We also look at the Social Return on assets as part of the Self Assessment - Appendix 5, p36, looks at this in more detail, the table below is an example of our General Needs homes.

Type of property asset	Cost net of grant £'000	12/13 Surplus before interest £'000	Financial return %	Social return
General needs	117,929	9,270	7.9%	2774 households in properties at social rents

Type of property asset	Cost net of grant £'000	12/13 Surplus before interest £'000	Financial return %	Social return
				67 households in properties at 65-80% of market rent 128 households on local authority waiting lists housed in 12/13 32 existing tenant households moved to more appropriate accommodation within Hexagon.

11.3 For many years, the Stock Investment team has drawn attention to units that may be uneconomic to repair, and these units receive an options appraisal to determine whether disposal and reinvestment in new stock is the best use of Hexagon's resources. A desk-based review has identified the homes that the most expensive maintain both in terms of responsive costs and longer-term component replacement – these make up about 15% of our homes

11.4 Whenever a unit on this list becomes void, it undergoes an options appraisal which includes environmental considerations, which effectively asks a number of questions:

- How much the home is worth now?
- How much the work will cost?
- How much the property will be worth after the work?
- Will the layout of the home meet current expectations?
- How easy we will find to let the home once work is done?
- Would replacement, as part of our Development programmed be a better option?

11.5 In the 30 months to March 2014, 42 homes have been reviewed as part of this process – with 15 having been approved for sale with the remaining 27 (64%) being brought up to current standards then re-let.

11.6 This mechanism is moving our property portfolio towards one that provides the best value for the money in the medium to longer term

11.7 We have also adopted a risk based approach to our directly managed Supported Housing homes, changing the client groups on several as well as some sales and transferring management to other organisations – this was covered in more detail on this in Section 9, p15.

11.8 This is an approach that we will continue with and extend as was covered in

Section 9 (see table above 9.2).

11.9 In addition, over the course of this Strategy, we will

- Maintain pressure to improve void turnaround times in Supported Housing which Section 9, p15, focuses on;
- Similarly improve performance on general needs voids – see Section 8, p13;
- Selling commercial properties where not providing a return on investment;
- Continue with a programme of tenancy checks - we focus on high risk points including new tenancies, transfers, and Mutual Exchange and Right to Acquire applications; and
- Use the HACT approach to measure the social value of community investment.[20]

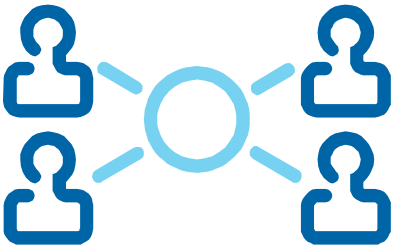
12 Embedding value for money throughout the organisation

12.1 The following strategies have proved helpful and will be retained:

- Each area of activity within Hexagon provides an annual report to the Directors Group which includes a section on efficiency reporting and strategies for improvement;
- Significant new initiatives (defined as IT projects costing over £15k or other projects costing over £25k) are subjected to full cost benefit analysis before proceeding;
- For IT projects, the IT steering group considers a post implementation review of each project to determine whether the planned benefits have been achieved, and what lessons have been learned;
- Lifetime costs are considered in procurement decisions, including the design of new homes and the specification of building components for home improvements;
- Directors Group requires that every departmental workplan include at least one pro-active value for money initiative every year; and
- At least two written quotes are required for purchases above £10,000, with a full tender for purchases above £20,000.

12.2 Additional strategies for 2014/17 include:

- Continuing to use a reporting mechanism for staff, so that they can record examples of improving value for money at any time
- Communications to staff on successful value for money



[20] HACT - Measuring the Social Impact of Community Investment: A Guide to using the Wellbeing Valuation Approach

actions and ideas implemented

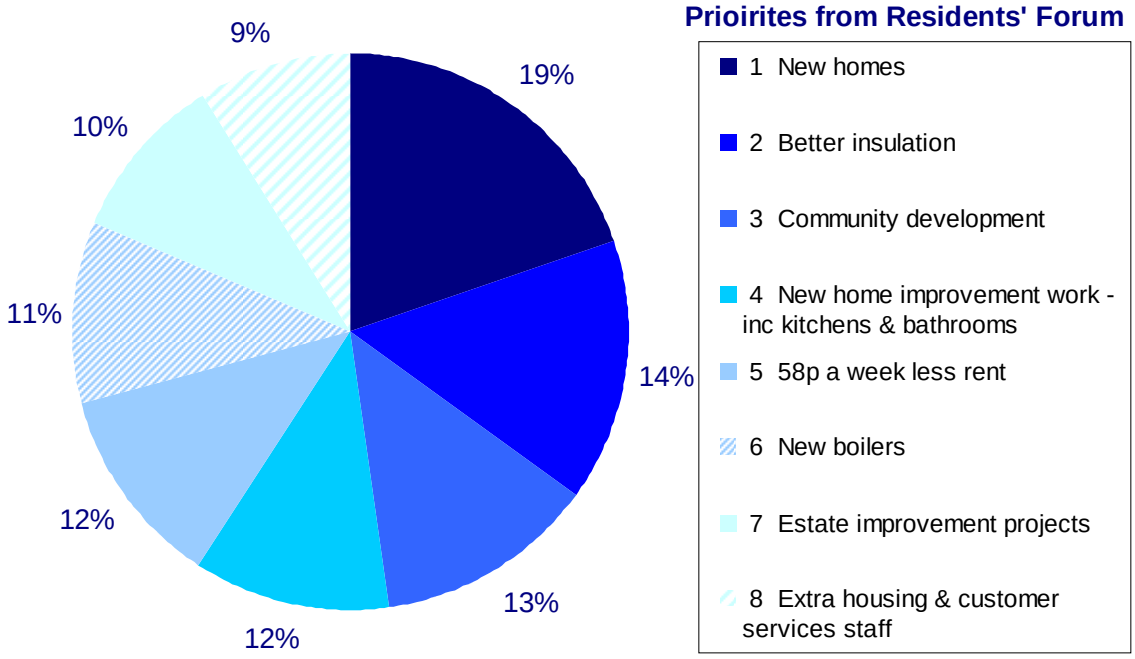
12.3 As part of this strategy, an independent Investors in People assessor was asked to check whether staff understand the principles of value for money and how they, as individuals, impact on VFM on service provision. She found

> "A strong awareness of the importance of providing good value for money and of working efficiently. There is evidence from indicators and benchmarking that Hexagon achieves this in many important areas."
>
> Investors in People Review Report 8th June 2012

13 What difference residents will see as a result of the implementation of this strategy?

13.1 The Residents Forum was consulted on the previous strategy in November 2011. The Forum was happy with the approach of focussing on higher spending areas where Hexagon does not already achieve top-quarter performance. The Forum provided additional ideas on engaging all staff, which have been included in section12, p20. The Forum was asked to assess priorities for investment of any cost savings (beyond those required to meet the business plan). The results were as follows (the percentages refer to the weightings given by the Forum).

These priorities have been used to inform budget setting since 2012/13.



13.2 There will be a similar consultation exercise in the summer of 2014 which will link to the final reporting on the 2011/14 Strategy.

13.3 At this stage, we believe that residents would notice

- Newly developed homes with smaller energy requirements, with an average SAP rating of at least 85 (see table above 5.1) and incorporating the features that residents value;
- A stock improvement programme which incorporates further feedback from residents;
- No homes having a SAP rating of below 65 (see table below 7.1), with the average rating increased to 72;
- Fewer components failing before their expected useful life;
- A more streamlined and efficient repairs process, delivering completed repairs within 8 days of reporting, on average, with quicker response times (see table below 8.1, p13).

14 How progress against this strategy will be monitored?

14.1 Progress in delivering value for money will be reported in different ways:

Level	**Method**
Board	Annual report on progress against the Self Assessment
Board	Annual report on progress against the financial business plan
Board	Quarterly management accounts and treasury update
Board	Quarterly performance indicators
Directors' Group (DG)	Annual analysis of HouseMark benchmark results
DG	Monthly management accounts
DG	Monthly performance indicators
DG	Quarterly reports on supported housing voids
Staff	Reporting initiatives via the intranet
Residents	Quarterly performance indicators considered by Performance Review Group
Residents	Maintenance performance indicators to be considered by Repairs Panel

14.2 There will be further reporting on progress against this the value for money strategy:

Level	Method	When?
Board	Annual report on progress against the strategy	September
DG	Annual report from each department	Throughout the year
Staff	Reporting initiatives via the intranet	Throughout the year
Residents	Annual report to all residents, a specific section on Hexagon's website.	September

Appendix 1 – More Detail on Hexagon's Approach to Value for Money

1.0 Corporate and business planning

1.1 Hexagon produces a 3 year Corporate Plan which reviews performance over the previous plan period and sets out corporate objectives for the forthcoming 3 years. The plan pays particular attention to efficiency and the achievement of VFM and links to departmental work plans and individual staff performance plans. The Corporate Plan and associated work and performance plans enables the corporate priorities that are identified at Board level to be translated into operational outcomes.

1.2 Hexagon also produces a 30 year Business Plan which is updated annually and contains the detailed financial forecasts which underpin the Corporate Plan, illustrating and testing the financial feasibility of the objectives in it in a global way. A separate business plan is produced for the subsidiary association, Horniman.

2.0 *Budgeting*

2.1 The annual budget is a key tool used to facilitate the delivery of corporate objectives year on year. Budget objectives and assumptions are approved by the Board in advance of budget preparation and any specific budgetary issues requiring particular attention are identified at this time. Such issues could include areas where efficiency savings are expected, rates of return on particular activities, or cost centres where spend needs to be prioritised to meet corporate objectives such as meeting the decent home standard.

2.2 Cost centre budgets are drawn up by cost centre managers with the support of the Finance Department. Budgets are scrutinised by the Director's Group in detail prior to being finalised for approval by the Board. Where necessary a "star chamber" approach is used where individual cost centre managers are required to justify increases in staffing or other expenditure to ensure budgets are fully justified, have regard to efficiency and are in line with corporate priorities.

3.0 *Service Improvement Work*

3.1 Hexagon has a well established programme of service reviews to improve service delivery. A mixture of Systems Thinking and Best Value Reviews are used in a programme of work is agreed annually by Directors Group and, over a period of 5 to 6 years, aims to covers all the main business areas. This is the primary means by which Hexagon identifies and prioritises areas where efficiency gains can be realised most effectively.

3.2 Systems thinking is used in the larger, more complex, resident facing areas of the business where greater input is needed to ensure that efficiencies are achieved. Best Value is used on smaller, more self contained areas. The essentials of the programme are:

- Dedicated and impartial resource – the Service Quality Manager;
- External consultants used where appropriate;
- Project Team for each review;
- Project planning and specified timetable;
- Involvement of residents throughout the review, with Systems Reviews this includes Project Team membership;
- Within Systems Reviews, Gate Reviews at the end of each key stage of the project to approve work undertaken to date and agree the next steps – the membership of this includes Directors Group, Board members and key stakeholders;
- For Best Value Reviews, recommendations to Directors Group; and
- Agreed implementation plan with budget provision where required.

3.3 Hexagon's service improvement reviews are undertaken in the context of resident involvement. They are informed by topic-driven resident panels made up of people who have used the service in the recent past. Mechanisms are in place to report back to resident panels at key stages in the review on the extent to which we have been able to meet their aspirations. With Systems Reviews, residents are members of the Project Team and have an active role in both the analysis of current issues with the service, its re-design and ongoing monitoring.

4.0 Procurement and partnering

4.1 Hexagon recognises that its approach to procurement is central to the achievement of value for money in its capital programmes as well as in respect of its running costs.

4.2 Our procurement strategy provides an overview of procurement across the organisation and is intended to help ensure that there is a co-ordinated and effective procurement process for all aspects of the business. The strategy also sets out how this effectiveness will be monitored.

5.0 *Proactive asset management*

5.1 Hexagon's asset management strategy is designed to ensure that its housing stock meets needs and standards and reflects customer's aspirations. The strategy sets out the delivery plan for the Decent Homes and stock improvement programmes, how this links into the 30 year business plan and the criteria for disposing of stock which is uneconomic to retain in management and ownership (see also paragraph 3.12.4 below).

5.2 The asset management strategy also sets out our approach to improving value for money by increasing the proportion of repairs carried out through the planned repairs programmes.

6.0 *Maximising income*

6.1 Maximising income is key to ensuring that Hexagon has the financial resources to improve services to residents. We seek to achieve this through our policies on setting rents and service charges, managing voids and income collection.

6.2 Hexagon's social rents are set within the rent restructuring guidelines so that they converge to target rents as swiftly as possible. Market-related rents are set by reference to the lower of 80% of market rents, the local housing allowance and the estimated housing element within the proposed Universal Credit. Once we have raised the target amount of extra rental income from market-related rents, we will revert to letting all properties at social rents.

6.3 Service charges are set within the law and lease agreements in place. They are reviewed annually with the objective of recovering the costs that Hexagon incurs.

6.4 Hexagon negotiates Supporting People and Nursing Home income with funders within the contractual agreements in place. The objective is to at least recover our costs on existing contracts, allowing for a 5% contingency for unforeseen costs.

6.5 Voids are managed to achieve the turnaround times set through internal and external performance indicators. Action plans are drawn up to deal with any specific areas where voids present a problem and the out-come of such plans are monitored by Directors Group and the Board.

6.6 Arrears are collected in line with Hexagon's rent arrears policy and closely monitored by management and the Board. Non-rental debtors are kept under review and debts are chased proactively.

7.0 *Efficient management of borrowings*

7.1 Hexagon's treasury management policy is designed to maximise the efficiency of the treasury operation whilst minimising treasury risk. The Board receives an annual treasury management report which reviews, inter alia, the current loan portfolio, the future borrowing strategy, the arrangements in place for interest rate management and the position on loan security.

7.2 The Board keeps the treasury management policy under review to ensure that the treasury operation is running as efficiently as possible.

8.0 *Improving business systems through IT – the Information Flow project*

8.1 The overall vision of IT in Hexagon is underpinned by the aim of developing IT systems to provide better, timelier and more cost effective business information. The mechanism for achieving this is the annual IT strategy approved by the Board annually in December. This strategy is a rolling 3 year programme of IT enhancements which are fully costed and budgeted for and linked to departmental work plans.

8.2 Hexagon recognises that continuous development in IT is an essential component of improving VFM and yielding efficiency gains, and the contribution the IT strategy makes to the efficiency agenda is closely monitored.

8.3 The three year Information Flow project is designed to achieve the following benefits by changing the way we deliver 14 of our most important business processes:

- Improve the customer experience
- Use our resources more efficiently
- Encourage positive change in the way we work
- Enable easier production of more reliable and consistent management information
- Enable the easier production of key local performance information for publishing to residents as expected by the regulator
- Maintain Hexagon's reputation as an up to date housing association

9.0 *Risk management*

9.1 Hexagon recognises that the effective management of risk is an important element of VFM, since the unexpected crystallisation of risk can not only be costly but can also undermine the Association's ability to meet its corporate objectives and, ultimately, its financial viability. We manage risk in a number of ways as detailed below.

9.1.1 Corporate risk map

This details the main risks to the achievement of corporate objectives and is kept under continual review. The controls in place to ameliorate these risks are evaluated and, where a residual risk exists, corrective action is taken where practicable. The risk map is reviewed regularly by the Audit & Risk Committee which reports to the Board annually on the effectiveness of the association's risk management systems.

9.1.2 Development scheme appraisal and monitoring

Hexagon has robust systems of development scheme appraisal and monitoring which have been in existence for a considerable time and are set out in the Development Strategy approved by the Board. The systems incorporate the criteria by which the Association will judge whether a particular scheme offers VFM and should be proceeded with and how the risks associated with its development will be managed. The systems also control how the overall development programme will be managed in terms of tenure mix and level of internal subsidy. The Director's Group and the Board receive regular progress reports on the cost of individual schemes compared to budget and well as that of the programme as a whole.

Appendix 2 – HouseMark and Central Services 2012/13

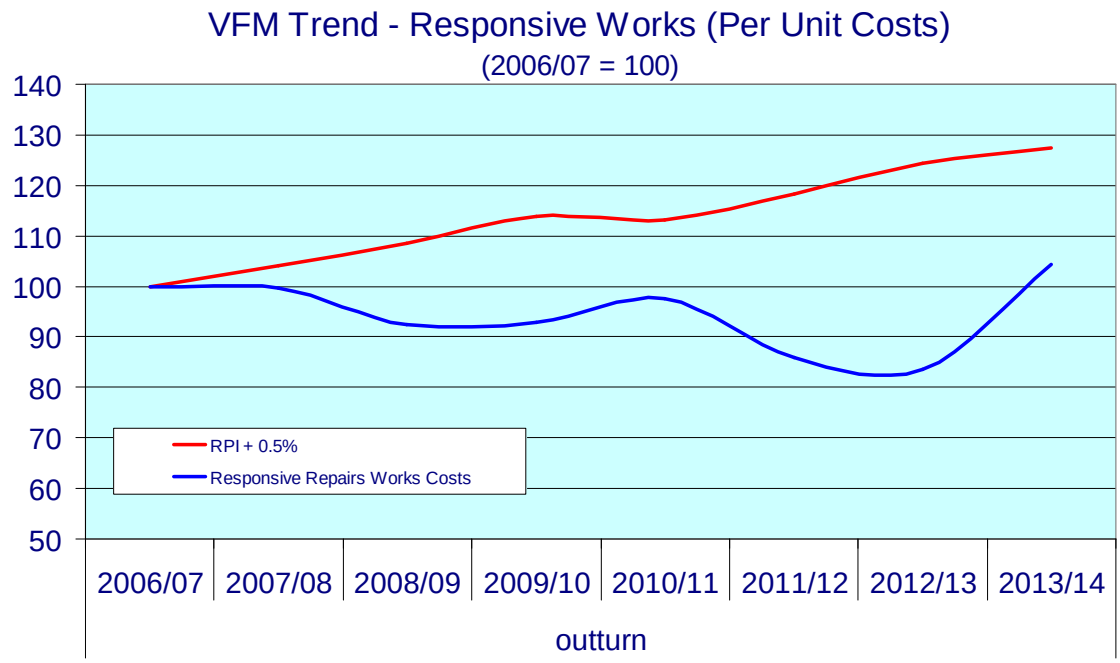
Hexagon's back office costs are low when expressed in terms of cost per user

Overhead cost breakdown per direct user							
KPI	Peer Group Quartiles				Hexagon Housing Association (2012/2013)		
	Sample	Upper	Median	Lower	Result	Rank	Quartile
Premises	32	5,224	6,213	7,933	6,918	20	
ITC	32	6,116	7,636	9,820	7,129	14	
Finance	32	3,886	4,644	6,122	3,650	6	
Central	32	8,024	10,429	13,903	7,074	6	

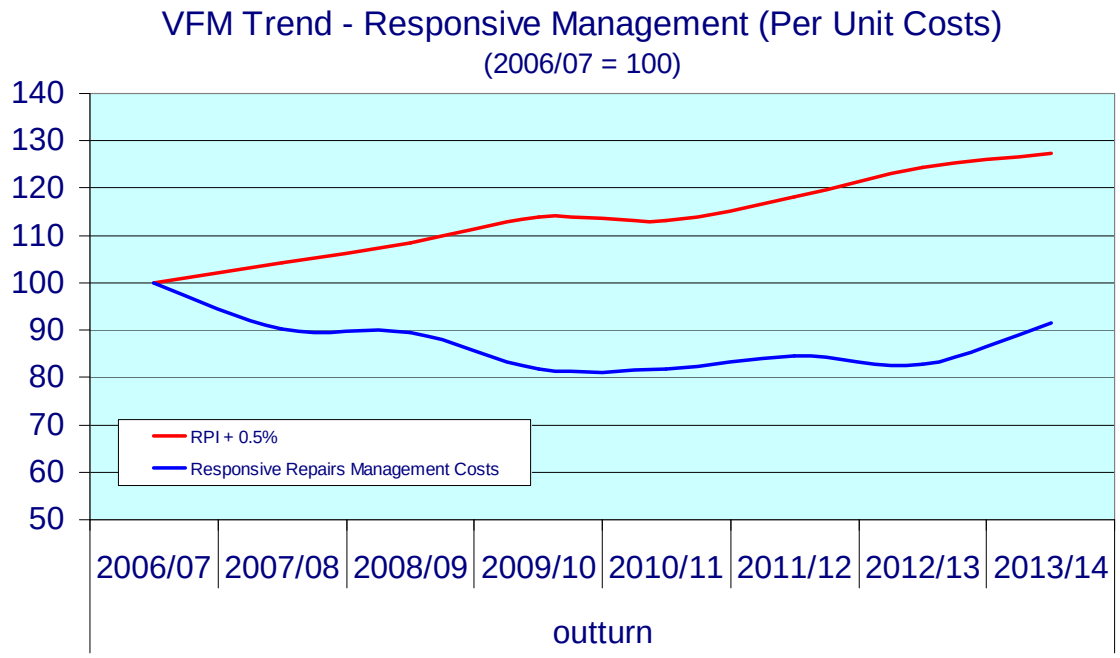
Compared to housing associations based in London – 2012/13

Appendix 3 Graphs showing trends in cost per home compared to rent inflation (the target is for the trend line to be below the red inflation line)[21]

Graph 1

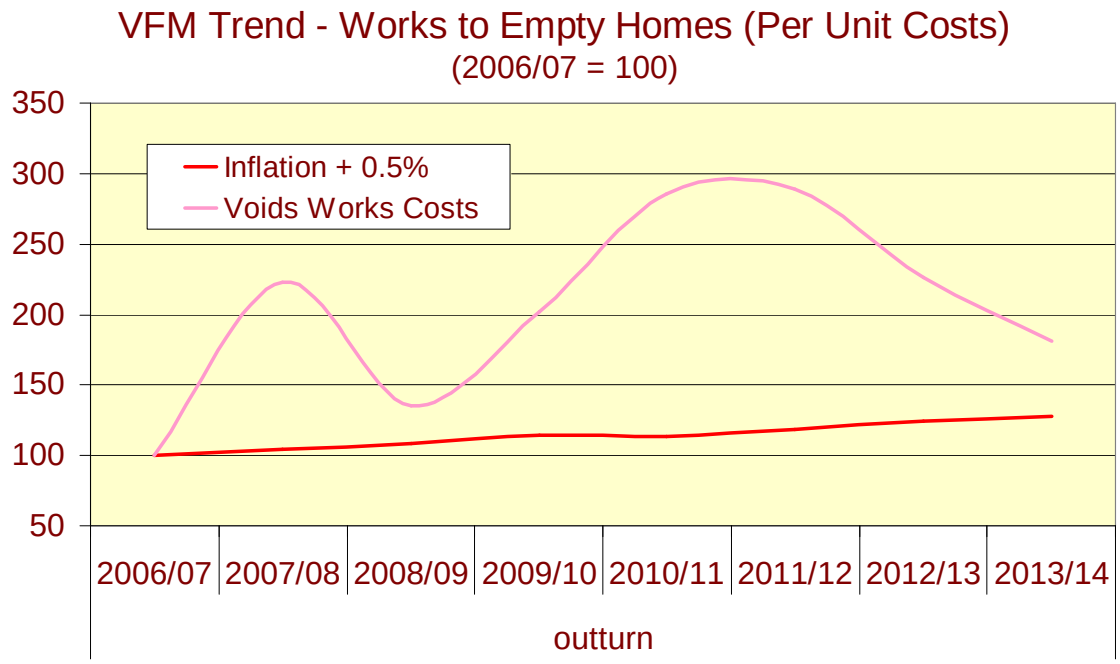


Graph 2

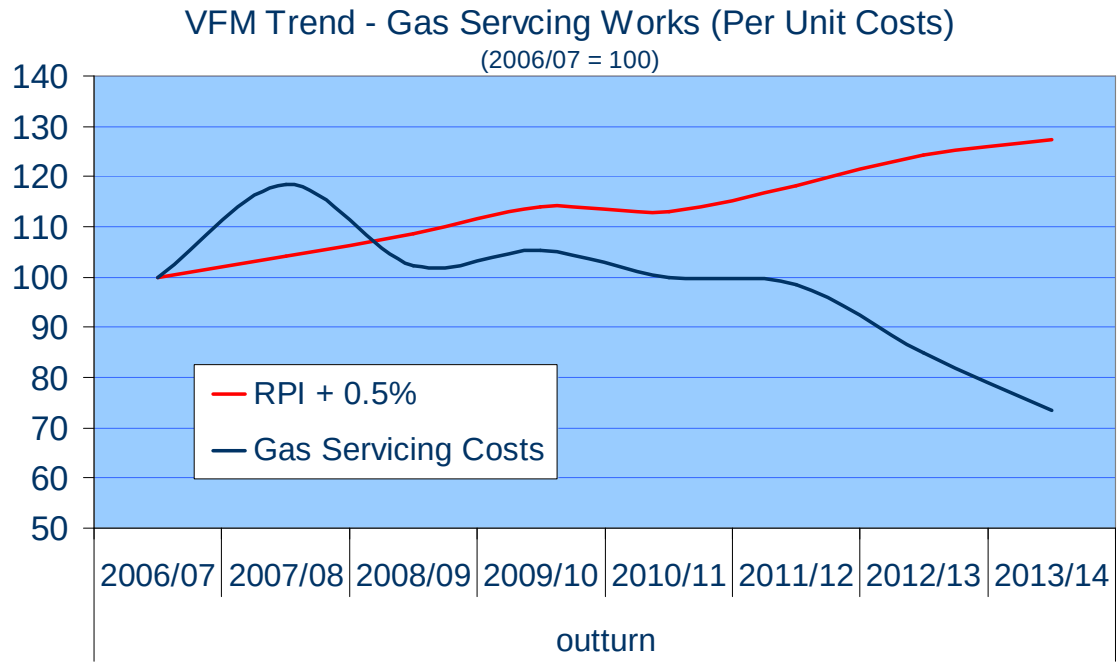


[21] All figures for 2013/14 are draft management accounts

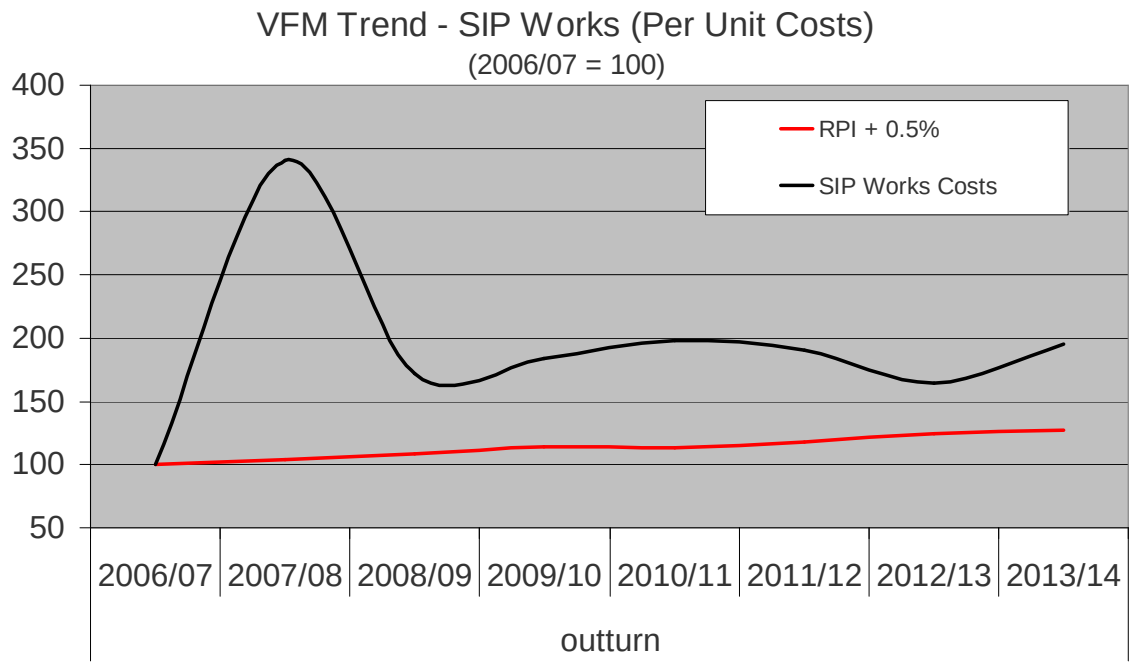
Graph 3



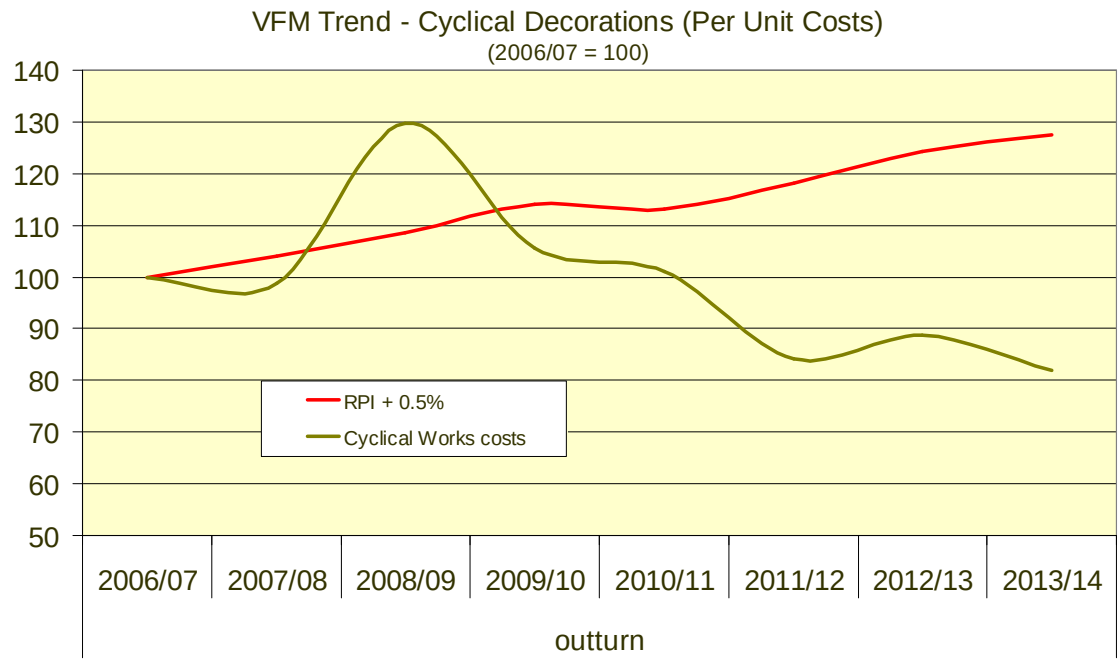
Graph 4



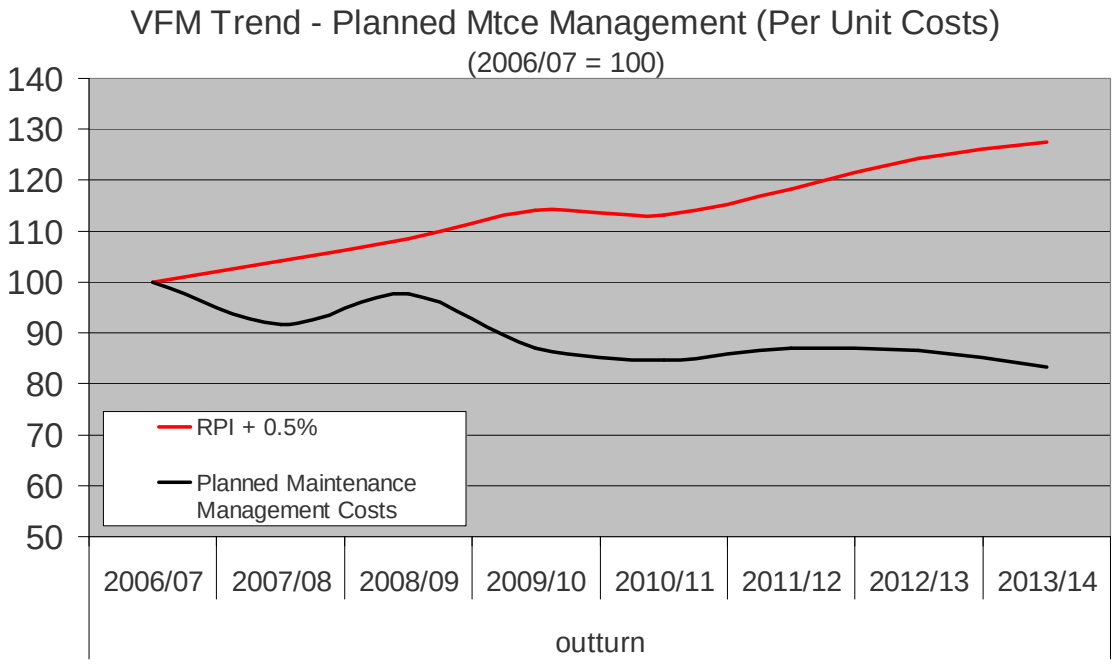
Graph 5



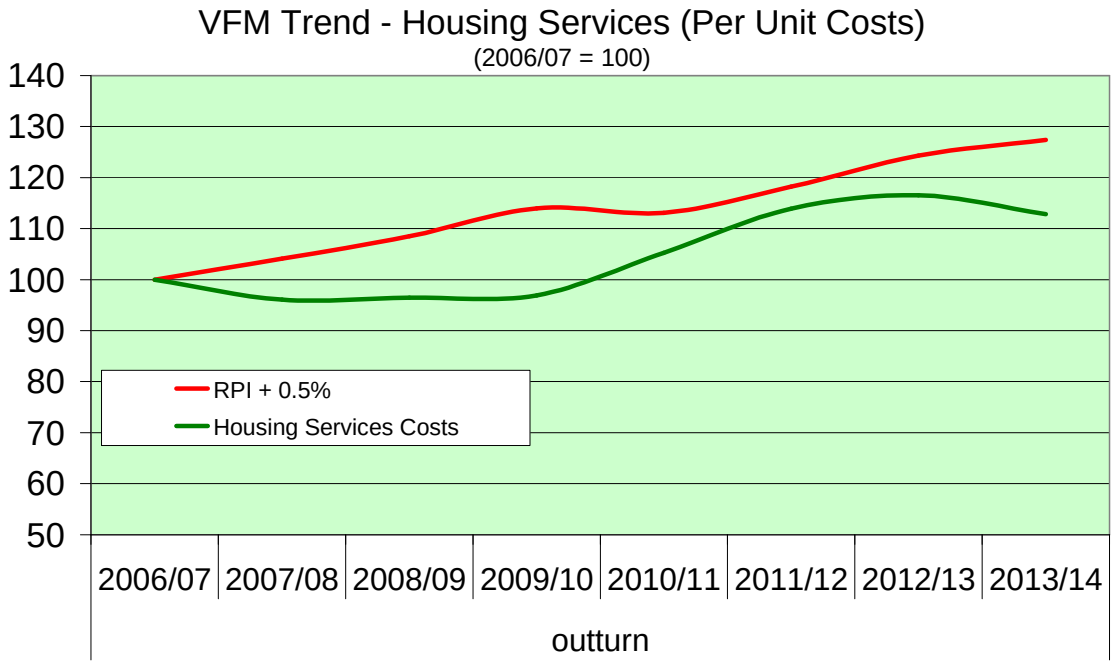
Graph 6



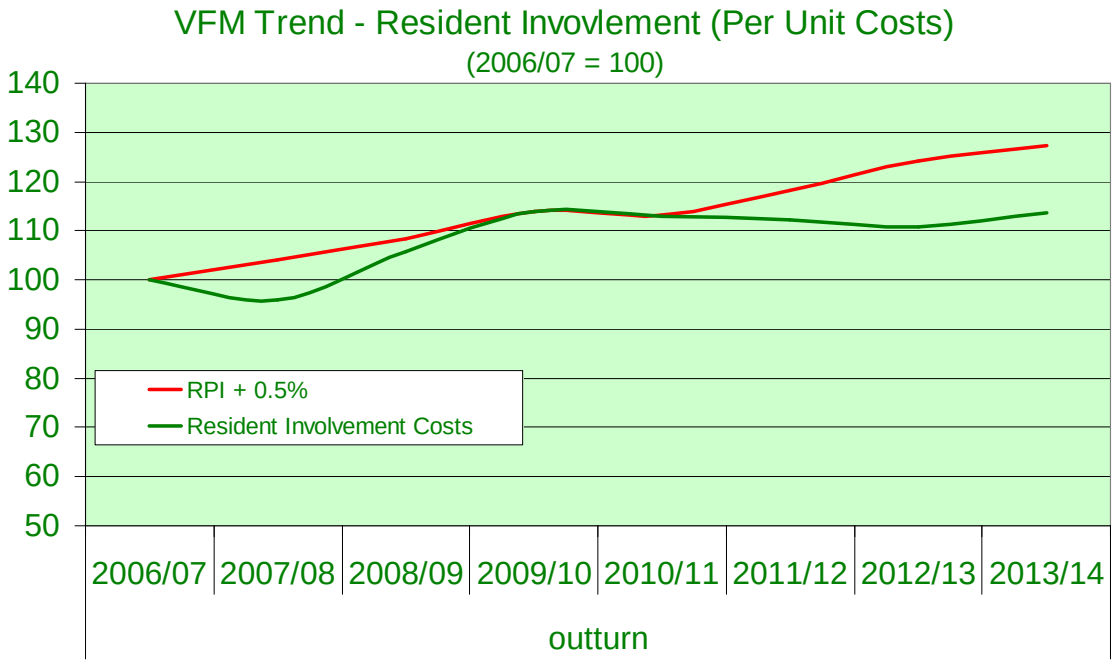
Graph 7



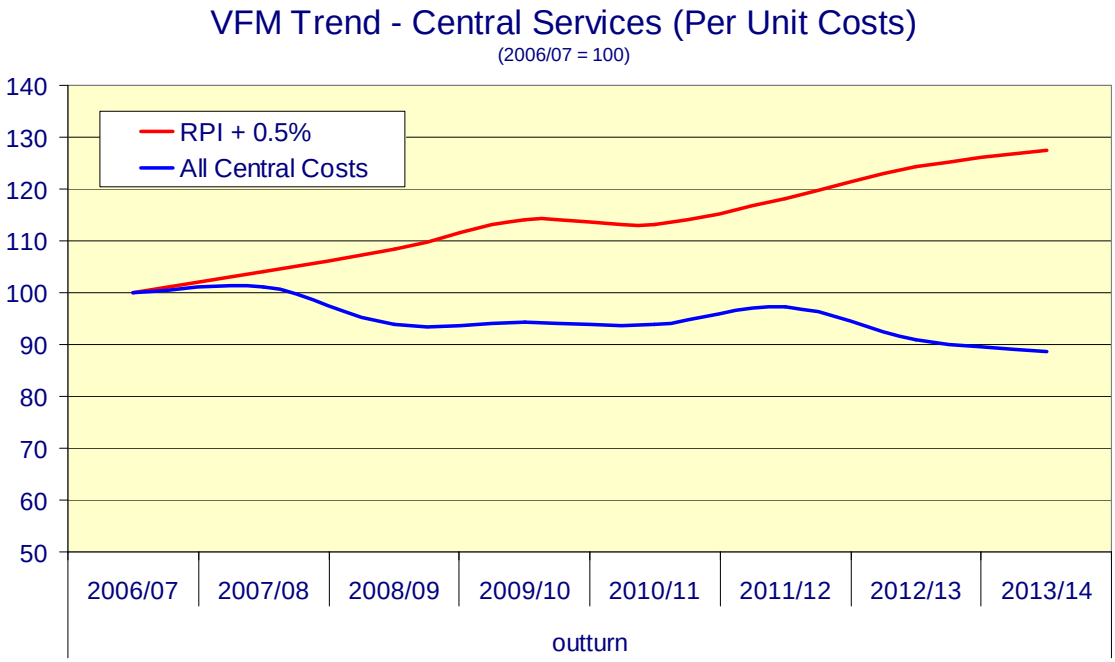
Graph 8



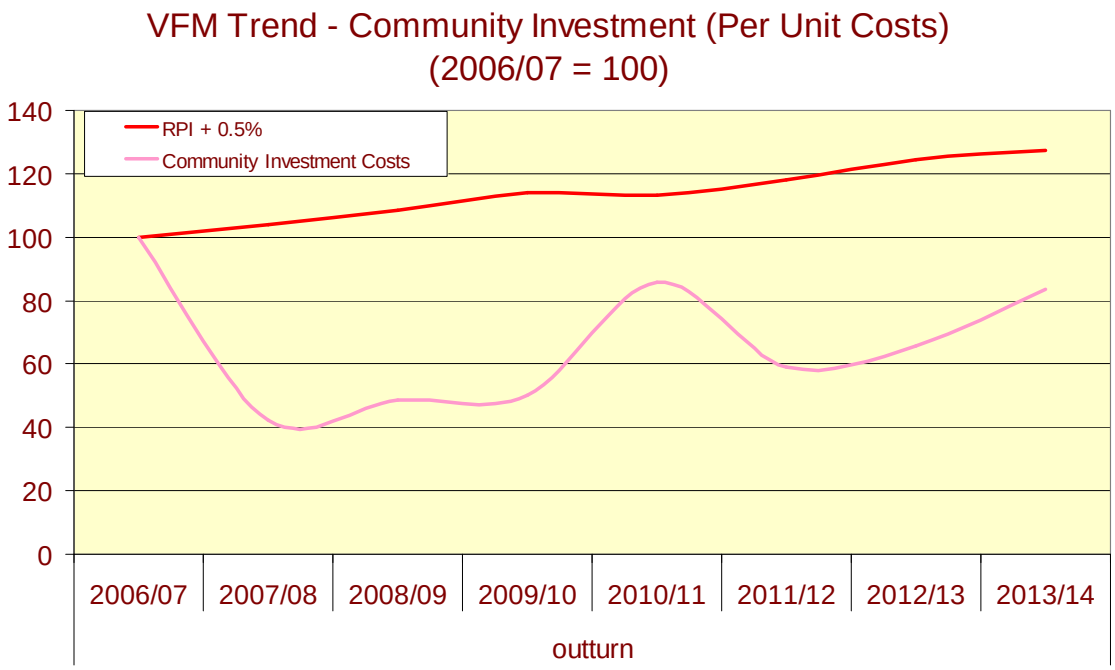
Graph 9



Graph 10



Graph 11


VFM Trend - Community Investment (Per Unit Costs)
(2006/07 = 100)
140
120
100
80
60
40
20
0
RPI + 0.5%
Community Investment Costs
2006/07
2007/08
2008/09
2009/10
2010/11
2011/12
2012/13
2013/14
outturn

Appendix 4 - Expenditure by Department 2013/14 (Still to be completed)
Taking into account both revenue and capitalised costs, the following table shows how much was spent on each activity during the 2013/14 financial year.

Expenditure in 2013/14 Activity	Total	%
Treasury management	4,470,564	19.6%
Asset management, stock investment & cyclical repairs	3,965,055	17.4%
Responsive, gas safety checks & void repairs	2,724,766	12.0%
Supported housing management and support contracts	1,715,708	7.5%
Nursing homes	1,289,690	5.7%
Back office functions	2,526,051	11.1%
General needs and shared ownership management	4,692,814	20.6%
Management of agencies (co-ops and SH agencies)	505,358	2.2%
Community development	366,109	1.6%
Customer service centre	322,941	1.4%
Other	186,096	0.8%
Total excluding building new homes	22,765,152	100.0%
Building new homes (Development and New Business)	22,521,357	

This indicates that, whilst it is still important to strive for value for money in areas such as back office costs, we should not lose focus on activities, such as development, where most of the money is spent.

Appendix 5 – Return on Assets by Property Type

Type of property asset	Cost net of grant £'000	12/13 Surplus before interest £'000	Financial return %	Social return
General needs	117,929	9,270	7.9%	2774 households in properties at social rents 67 households in properties at 65-80% of market rent 128 households on local authority waiting lists housed in 12/13 32 existing tenant households moved to more appropriate accommodation within Hexagon.
Shared ownership	14,396	784	5.4%	153 households in homes that they have part-purchased. 16 households in homes at intermediate rent that they are saving for a deposit to buy. 4 households have been able to buy the remaining share of their home in 12/13.
Directly managed supported housing	4,798	153	3.2%	198 households in properties at social rents 11 households in properties at 65-80% of market rent 27 people housed from inappropriate accommodation (such as hostels) during 12/13 8 people provided with accommodation to enable independent living during 12/13. Hosting a community payback scheme for offenders has contributed to the criminal justice system, and enabled some ex-offenders to go on to volunteer their time.
Co-op managed general needs	7,264	650	8.9%	307 households in properties at social rents, being managed by tenant co-operatives
Agency managed supported housing	1,553	70	4.5%	127 households in properties at social rents. Of these 68 are in schemes that allow support for alcohol & related dependencies, 17 in schemes for ex-

				offenders, 27 in schemes that support people with long-term mental health problems, and 9 in a refuge for women who are in danger of domestic violence.
Nursing homes (where owned)	281	45	16%	10 residents helped with mental & physical health problems, freeing up spaces in acute mental wards. Residents re-established in their own community. Secondary impact of reducing crime and antisocial behaviour in some cases. Provision of training places for around 10 NHS student nurses each year.
Commercial properties	182*	-12	-6.6%	