

Value for Money Strategy 2017-8

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1 Introduction

1.1 One of Hexagon’s six major corporate objectives is ‘to change our ways of working to achieve maximum value for money by working smarter’.

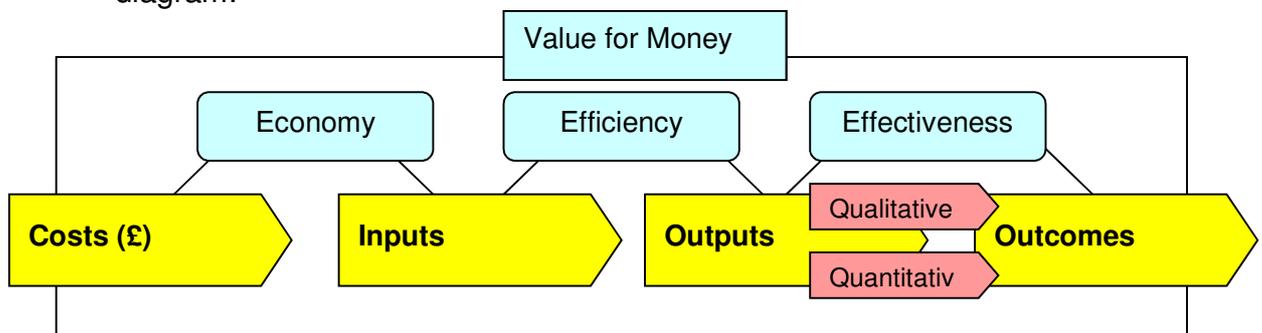
1.2 This is important because:

- 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 (rents from tenanted properties) is currently constrained by a formula that reduces it by 1% a year for the next 3 years. We have to ensure that costs are constrained 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.

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. 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?**

Hexagon adopts a number of techniques to achieve VFM:

- Working to a **corporate plan** which sets out corporate objectives for the forthcoming three years, including VFM themes and targets;
- Using a **30 year financial forecast** to test the financial feasibility of major decisions;
- Setting an **annual budget** which reflects the corporate objectives and is in accordance with the VFM targets;
- 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**.

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. Activity-specific benchmarks are used where these are available such as DLA Piper, which is used by Human Resources and SDS Catalyst, which is used by Development.
- 3.2 The results of HouseMark benchmarking for 2015/16 (see **Figure 1**, below) indicate that, compared other London Housing Associations, on the basis of the HouseMark dashboard¹, Hexagon has low costs, but does not deliver good performance other than in tenancy management.

Figure 1 - HouseMark Dashboard for Hexagon compared with London Housing Associations



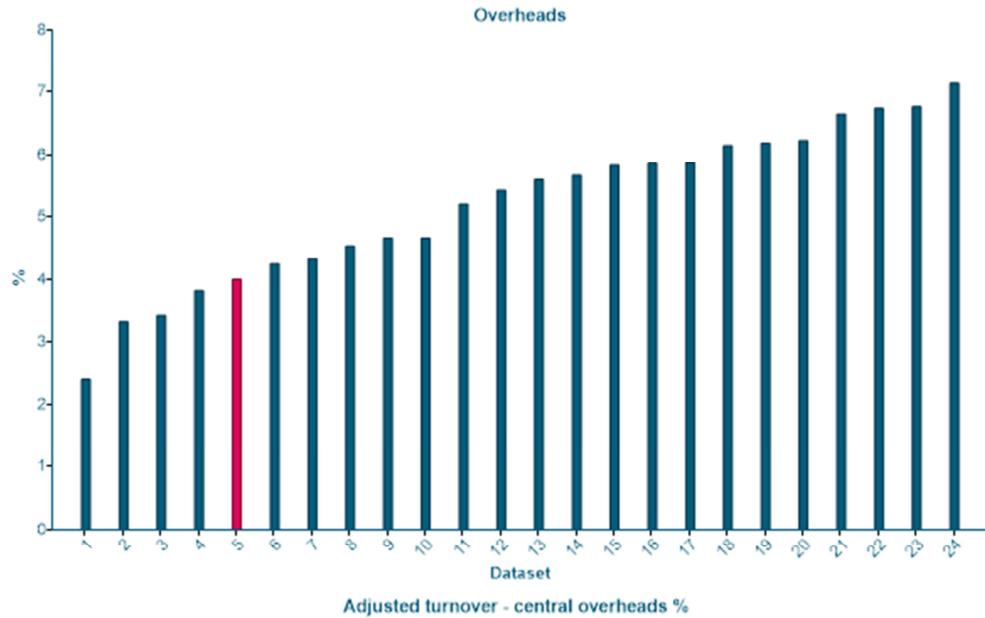
- 3.3 Two observations are worth making on this relative performance and the data behind it:

- Responsive repairs and void works – costs in 15/16 were “flattered” by a £568k adjustment arising from a contract terminated in 14/15. Without this, Hexagon would be in the high cost/poor performance segment.

¹ Hexagon also utilises a large amount of other HouseMark data to help us better understand our relative performance

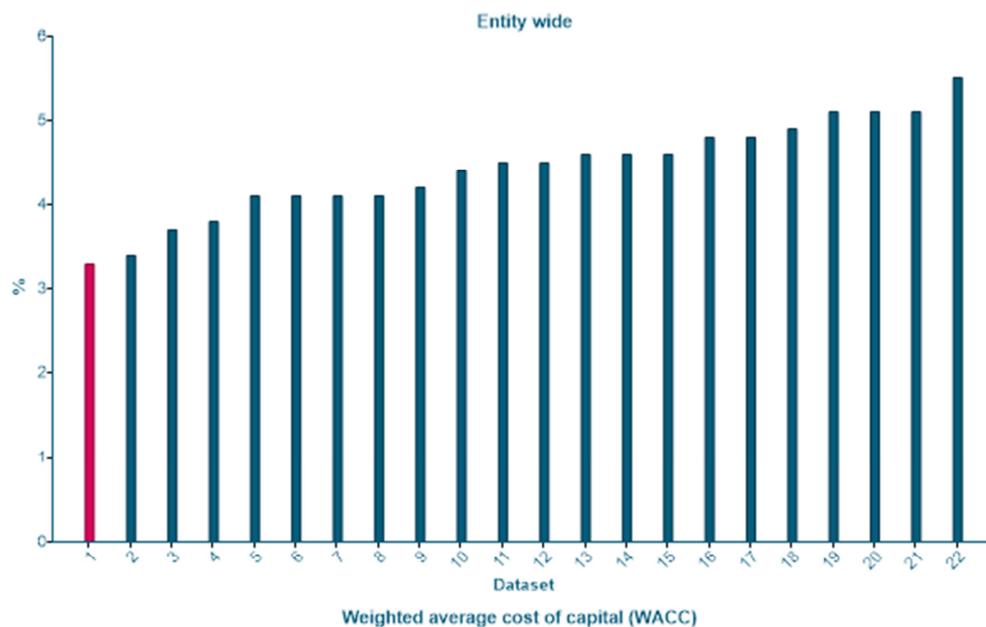
- Our peers report higher resident satisfaction with services, and this is a factor in our poor performance on responsive repairs, major and cyclical repairs, resident involvement and estate services

3.4 Hexagon’s overhead costs are lower (as a percentage of turnover) than in than most London housing associations:-



Hexagon is the red bar in the chart above.

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



3.6 The HCA Unit Cost Analysis

3.6.1 In July 2016, the Board considered Hexagon’s headline social housing costs per property which had been circulated by the HCA and was derived from the 2015 global accounts data and broken down into several cost lines. This was compared to the equivalent figures for the sector as a whole. We have adjusted the data to take into account the London cost differential that the HCA gave as contextual information. The results were as follows, with all figures being cost per unit in £’000:

	Manag ement	Service costs	Mainten ance	Major repairs	Other social housing	Total
Hexagon	0.63	0.40	1.08	0.36	0.61	3.07
Upper quartile	1.27	0.61	1.18	1.13	0.41	4.3
Median	0.95	0.36	0.98	0.8	0.2	3.55
Lower quartile	0.7	0.23	0.81	0.53	0.08	3.19

3.6.2 Once adjusted to take the London cost differential into account, Hexagon’s management costs per unit are lower than 75% of English social landlords. However, our responsive maintenance costs were higher than the median.

Our service costs look higher than the median because we have a relatively large proportion of supported housing (6.7% compared to the median of 1%, for which we provide more services). “ Other” costs are higher by £0.22k a unit because they include costs for co-operative and agency managed units which are not included in the units managed figure. This mis-match is addressed when setting Hexagon’s own targets for operating costs per unit, as set out in Appendices 1 and 2.

3.7 Where we intend to focus our VFM efforts this year

3.7.1 Based on the evidence from benchmarking data, we intend to focus on controlling responsive repair costs and on improving resident satisfaction. Past experience has shown that if residents are happy with responsive repairs and (to a lesser extent) with estate services such as cleaning and gardening, then other satisfaction measures also rise.

3.7.2 Also, although our current performance on rent collection and arrears is good, this is beginning to deteriorate and we need to reverse the trend.

4 Value for Money Themes in the Corporate Plan

4.1 The Board has agreed a suite of strategic level Value for Money themes and measures which cover all of the Association’s activities:

Theme	Measure
Restricting operating costs (including major repairs and void losses) per social housing unit	Operating cost per social housing unit
Restricting growth of interest costs per social housing unit	Interest paid as a percentage of average borrowings
Effective asset management	Return on capital employed
Maximising development (within our capacity)	Units developed as a percentage of units owned
Maximising development (within our capacity)	£m distance from an interest cover breach
Maximising development (within our capacity)	Cumulative surplus on outright sales
Improving resident satisfaction	% satisfied with last repair
Delivering social value	Average SAP rating of properties
Delivering social value	Annual social value delivered per £ spent on employment initiatives

4.2 These measures have been chosen because they encompass everything that the Association spends, but also include the most readily available measures of outcome (new homes, resident satisfaction and social value). Definitions of each measure are included in Appendix 1.

4.3 As part of the Corporate Plan for 2017-20, the Board has agreed targets for these measures over the next three years. These are set out in Appendix 2. The next section of this strategy summarise the most important actions from departments' workplans to deliver improvements during 17/18.

5 Value for money initiatives for 17/18

The following actions to deliver value for money improvements will be taken in 17/18.

Theme	Initiative	Team responsible or leading
Restricting operating costs	Implementation of Cx computer system to replace existing housing management and maintenance system	Business Improvement
Restricting operating costs	Purchase Invoice Processing - looking at reduction in volumes & streamlining processes as precursor to becoming digitised	Business Improvement
Restricting operating costs	Review and potentially retender a number of internal service contracts - including office cleaning, office lighting, archiving service	HR & Facilities
Restricting operating costs	Achieve some challenging targets on arrears & rent collection in relation to all the business streams - including rent collection rates of 99.5% & General Needs arrears target of 5.6%	Housing Services
Restricting operating costs	Replace Email filtering solution to reduce spam volume and false positives and improve protection against key threats (inc ransomware) and system availability as a result	IT
Restricting operating costs	More frequent monitoring of high value orders to ensure than costs are contained.	Responsive Repairs
Restricting interest costs	Reduce interest paid as a percentage of average borrowings by managing drawdowns and rollovers with Santander and YBS Banks	Finance

Effective asset management	Continue review of Hexagon's estates to identify land for further development.	Development & Regeneration Director
Effective asset management	Dispose of Cromwell Mansion Shop unit that not able to make most of at present	Finance
Effective asset management	Dispose of properties where detailed assessment suggests that they are uneconomic to repair, maintain or let in the longer term.	Stock Improvement
Maximising development	Secure grant funding to develop homes under the 2016-2021 GLA funded development programme, generating cross subsidy of £3.7m through outright sales.	New Business
Improving resident satisfaction	Implement effective contract management procedures to improve performance of Estate Services contractors	Housing Services
Improving resident satisfaction	Introduce PDA based surveys for repairs work to give more immediate feedback and allow us to deal with problems earlier; and set more challenging targets for satisfaction - such as 90% for the gas contractor.	Responsive Repairs
Improving resident satisfaction	Develop a process to put regularly used schedule of rates codes into the repairs diagnostic tool used to improve accuracy of repairs ordering.	Customer Services
Delivering social value	Ensure effective delivery of Love London Working Project, including - enrolling 200 participants (at least 100 of which are residents) - getting at least 104 into employment (including 52 residents)	Community Investment
Delivering social value	Recruit and train 10 residents as Digital Champions	Community Investment
Delivering social value	Provide One to one support for a caseload of more vulnerable residents - including 50 new residents - to help maximise income	Community Investment
Delivering social value	Achieve overall average SAP rating of 85 on schemes handing over in 2017/18	Development
Delivering social value	Continue to make use of CIHA reports to reduce the number of homes with SAP (energy efficiency) ratings of less than 65 and develop a programme of work for every home to increase ratings to at least 65..	Stock Improvement

Delivering social value	Train 10 Resident Green Champions to help with lifestyle changes that lead to saving energy, with at least 20 homes visited for 1 to 1 advice.	Stock Improvement and Resident Involvement
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There are more value for money initiatives in the 17/18 departmental workplans, but those above are the most important.

6 Embedding value for money throughout the organisation

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;
- 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.

7 How progress against this strategy will be monitored

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

Level	Method
Board	Annual report on how the budget helps to deliver the targets
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
Residents	Quarterly performance indicators considered by Performance Review Group
Residents	Maintenance performance indicators to be considered by Repairs Panel

7.2

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

Level	Method	When?
Board	Annual report on progress against the strategy as part of the VFM self assessment	September
DG	Annual report from each department	Throughout the year
Residents	Annual report to all residents, a specific section on Hexagon's website.	September

Appendix 1 – Definitions of Value for Money measures

1. Operating cost per social housing unit

The HCA derives a similar figure from our financial statements for the sector –wide unit cost analysis, but theirs does not include bad debt or void costs, it includes charges for support services that are fully funded by local authorities and does not align units with costs for nursing home and agency managed units. The definition proposed here corrects these issues. The HCA definition is shown alongside for comparison.

	Included in Hexagon definition	Included in HCA definition
<u>Operating costs</u>		
Management	Y	Y
Bad debts	Y	
Voids	Y	
Service charges	Y	Y
Responsive maintenance	Y	Y
Planned maintenance	Y	Y
Major repairs - revenue	Y	Y
Major repairs - capital	Y	Y
Other - lettings	Y	Y
Charges for support services		Y
Accommodation managed by agents		Y
Development administration	Y	Y
Other - social housing activities	Y	Y
<u>Social housing units</u>		
Directly managed	Y	Y
Agency managed		
Care homes		Y
100% leasehold units		Y

2. Interest paid as a percentage of average borrowings

Annual interest payable before capitalised interest/ average loan balance throughout the year (measured monthly)

3. Return on capital employed *

Annual operating surplus/ (Total fixed assets + total current assets - total creditors at end of the year)

4. Units developed as a percentage of units owned *

New homes completed in the year (any tenure)/ homes owned at the end of the year

5. £m distance from an interest cover breach

The monetary difference between the annual average interest cover ratio as defined by the Lloyds loan agreement and 110%

6. Cumulative surplus on outright sales

Cumulative sales income from outright sales less costs of sales, adjusted for actual interest cost to the Group, starting from 1 April 2017

7. % satisfied with last repair**

For all repairs, where the resident has provided satisfaction feedback, the % of repairs where the resident reported they were satisfied with the repair.

8. Average SAP rating of properties

Average energy efficiency rating of homes owned by Hexagon, using SAP 12 definition.

9. Annual social value of generated by employment initiatives

Annual social value of employment support activities delivered by Community Investment team for each £ spent, using HACT social value model

* These definitions are taken from a pilot scheme to align VFM indicators across the social housing sector

** This is the definition used in our responsive repairs contracts

Appendix 2 – Value for money targets in the Corporate Plan

The Board has agreed the following three year targets for each of the strategic VFM measures:

Year to	2017	2018	2019	2020
Operating costs per directly managed social housing unit (£/ unit)	4221	4460	4534	4537
Weighted interest rate	3.18%	3.71%	3.57%	3.53%
Return on capital employed	2.1%	2.1%	2.0%	1.8%
Units developed as a % of units owned	0.7%	3.0%	2.3%	2.2%
£m distance from an interest cover breach (cannot be less than £5.1m)	10.5	11.5	11.2	11.6
Cumulative return on outright sale schemes (£'000)	0	728	1046	1046
% satisfied with last repair	81%	88%	89%	90%
Average SAP rating of properties	71.05	71.9	Not yet available	Not yet available
Annual social value delivered per £ spent on employment initiatives	Not yet available	£2.50	£3.00	£3.25