# **Hexagon Housing Association Ltd**

# **Board of Management**

**29th November 2016**

###### Agenda Item 14

**Corporate Plan 2017-2020**

**Report by the Chief Executive**

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| ***1.0*** | ***Introduction*** | |
|  | The purpose of this report is to follow up on the 27th September Board report as agreed at the last meeting.  This report provides a review of performance to date, updating progress against each objective, target, and initiative to ensure the Board has a good overview that will inform the creation of the new Plan.  The report also contains **recommendations** that we retain the current Mission Statement and Values. It also proposes draft text for Section 7 of the Corporate Plan for discussion/approval.  A further report will follow to the January Board with more detail on proposed objectives. |
| ***2.0*** | ***Review of Performance*** |
|  | I attach under **Appendix A**, a table which pulls out the Corporate Plan objectives and targets for 2014-17 as per section under the Plan. I have added two columns to the table to report on whether we have achieved or not achieved our target and to provide a comment where appropriate.  I should emphasise that most of the information contained in this report is reported to the Board via the Performance Indicators, Strategic Reviews, and regular updates, etc. In that sense, the information is not new, but we have tried to provide a snapshot of our progress to date at this point in time.  The assessment has been something of a team effort in that I have primarily relied on the relevant managers and directors to provide the assessments.  Members should be aware that the more detailed targets flowing from the Corporate Plan are picked up in the annual departmental workplans. In turn, individual performance reviews result in individual plans and all of this is monitored by the relevant directors and managers. In other words, we have a structure in place to ensure that there is a ‘golden thread’ running from the top level Corporate Plan objectives down to what everyone in the organisation does on a daily basis. |
| ***3.0*** | ***Summary*** |
|  | In overall terms we have made very significant progress since the last report in 2015 in meeting our objectives, targets, and initiatives.  To put this into some context, the way the Plan is structured is we separate the Plan out into the following four key areas:   1. To put residents and service-users at the heart of what we do 2. To change our ways of working to achieve maximum efficiency 3. To ensure that Hexagon continues to grow in a financially, socially and environmentally sustainable manner, 4. Cross-cutting work/activities   We have a total of 45 objectives which are then “fleshed out” in further detail by describing our targets/initiatives to ensure that these are achieved. We have a total of 107 targets/initiatives in the Plan across all four areas.  The attached analysis suggests that we have fully achieved 62 (60%) of our objectives at this time. A further 29 (27%) targets have been partially achieved (many in delivering the 2015/18 development programme), with 13 (13%) not achieved.  The areas where we have seen the strongest performance include the following:   1. We have improved the use of LifeSpan to better understand the condition of our housing stock to ensure that the cost of replacing failed components features in our Business Plan cost projections more accurately. 2. We are meeting our Health & Safety obligations in respect of gas servicing consistently and further progress has been made on reporting to the Board on Fire Risk Assessments to ensure full compliance. 3. All of our Care Homes fully meet the standards required following recent inspections. 4. The Hexagon Academy goes from strength to strength and we now have a grant from the European Social Fund to increase our employment training via the Love London Working scheme. 5. We have implemented our Welfare Reform plan and the impact so far on Hexagon’s business has been relatively minor. To help us prepare for the introduction of Universal Credit, we have strengthened our approach to arrears monitoring by introducing ‘RentSense’, an IT package aimed at better focusing our interventions. 6. We have improved the energy efficiency in a number of our homes (186) and have implemented the ‘Greening of the Stock’ strategy. 7. We continue to roll-out the ‘Customers at the Heart’ training programme to all new arrivals at Hexagon. 8. Our void loss in general needs is now within target and has been for the last four quarters. 9. Our void loss in Supported Housing has reduced as planned. 10. Our new phone system has been implemented as planned and is providing a better platform for communications. 11. We have made very good progress on our Asset Management Strategy. 12. Our Training Plan has been delivered as agreed. 13. We have retained all of our top ratings from the regulator, the HCA, namely G1 and V1 for Viability and Governance respectively. 14. We achieved Investors in People Gold in May 2015 as planned. 15. We have made reasonably good progress on delivering the 2015/18 Development Programme with only two schemes left to procure. 16. All of our shared ownership sales have progressed well. 17. We have met all of our environmental sustainability targets in the building of new homes by meeting the new code for Sustainable Homes levels required. 18. We continue to work in partnership with other associations in the procurement of our Stock Improvement Programme via the South East Consortium.   The main area where we have struggled in the past few years, including improving residents’ satisfaction with our repairs service. The Board will be aware of the difficulty encountered following the award of the contract to R Richardsons and their failure to deliver which resulted in their sacking in October 2014.  Following the recruitment of three new contractors from February/April 2016, as Members will see from the PIs on residents’ satisfaction, we are moving in the right direction, but this continues to be a work in progress.  Our ambition to improve satisfaction with Estate Services has not been successful. From June 2016, we have new contracts in place and we have parted company with one of the Estate Services contractor. We will shortly be carrying out a further residents’ satisfaction survey with Estate Services and will report to the Board once this has been completed.  In respect of our rent arrears performance in general needs, the situation is that we have lost our top quartile performance. This is because our performance has got a little bit worse whilst at the same time other associations have improved. This continues to be a major focus for our new Head of Housing Management.  The IF Project has met some, but not all of its objectives and the Board will be aware that we agreed to terminate the IF Project and embark on a new path by creating a Business Improvement Team. They are currently working hard on the procurement of the new IT system which is their first major project.  Lastly, we have not achieved our target for recovering all recoverable service costs, including staff costs and costs significantly exceeded budget again in 2015/16 largely because of under-budgeting of communal repairs elements as service charges. Our new Head of Housing is leading on a review of the way we are dealing with service charge budgeting and overhauling our current system more generally. |
| ***4.0*** | ***Hexagon’s Mission Statement*** | |
|  | Hexagon’s Mission Statement is currently defined as follows:  “To meet housing, care, and support needs in South London and assist with economic and social regeneration.”  This Mission Statement has served us well over a number of years and I would therefore **recommend** that we retain the mission statement for the new corporate plan. | |
| ***5.0*** | ***Hexagon’s Values*** | |
|  | Our Mission Statement is underpinned by our Values which are identified as follows:   1. We foster equality of opportunity and embrace diversity in everything we do. 2. We are committed to ensuring affordability of all our homes and services. 3. We strive to be open and accountable to all our customers and partners. 4. We place the interests of our residents and service users at the heart of what we do and aim to treat people with respect. 5. We value our staff and are committed to them achieving their true potential.   Once again, I think that these have served us well over the past few years and I am therefore not proposing that we make any changes to the Values for the new Plan. | |
| ***6.0*** | ***The context of future changes*** | |
|  | At the last Board meeting, I reported that “The Context for Future Changes” section of the report, namely Section 7, which looks at the external operating environment, contained both important and ongoing items including welfare reform, low grants for the building of new homes, financial challenges faced by tenants, and the rapidly changing world of digital communications. The two key changes I have incorporated below are the -1% rent settlement and Brexit uncertainty.  With that in mind, I have drafted out the following section for inclusion in the Corporate Plan for comment and approval:  ***2017-2020 – The Context for Future Changes***  *We see four major themes underpinning the external operating environment. Many of these changes are reflected in Government policy, either directly or indirectly and they will affect the way that Hexagon operates in the future.*  *These changes present both threats and opportunities for Hexagon, but they underscore that these changes require the development of innovative and creative solutions to address the growing housing needs in our communities.*  ***Welfare Reform and financial challenges faced by residents***  *The roll out of Universal Credit has begun, but its impact to date has been relatively minor on Hexagon and Hexagon residents. At November 2016, approximately 80 residents were in receipt of Universal Credit as the Government roll-out of Universal Credit has been much slower than originally planned by Government.*  *Universal Credit will see the ending of direct payments to housing associations as the Universal Credit payment will be made directly to tenants. We still expect this to result in a substantial increase in rent arrears, despite some of the positive changes arising from the earlier pilots, including the ability for landlords to request the switching back under direct payments should arrears start to build up.*  *The ‘Bedroom Tax’ (aka ‘Spare Room Subsidy’) impacts on approximately 8% of Hexagon tenants and although these tenants have seen a decrease in their Housing Benefit somewhere between 14 and 25%, depending on the number of bedrooms that are under-occupied, we have not seen a significant increase in our arrears as previously anticipated.*  *The original welfare cap (£26k in London) impacted approximately 18 Hexagon residents. The new cap (£23k in London from November 2016) will impact a further 20. Whilst the cap is a significant challenge for these residents, we do not anticipate a major impact on our overall finances.*  *The Government has also announced its intention to apply the Local Housing Allowance rate to housing association tenants and there may be some impact on Hexagon’s supported housing residents, although early indications are that the Government intends to fund any increases over LHA via a ring-fenced local authority controlled payment.*  *Further changes that the Government intends includes limiting single people without dependents to the LHA shared room rate which will seriously inhibit our ability to house under-35s in self-contained accommodation.*  *Major benefits are also “frozen” until 2020 and as inflation increases, we expect many of our residents in receipt of benefit to face further financial hardship. This includes those in receipt of Jobseekers Allowance and Income Support.*  ***Minus 1% rent increases for 4 years ending 2020***  *During the life of this Plan, Hexagon will have to put its income down by -1% for four years, starting 2016 and ending 2020.*  *Given that Hexagon’s other costs, including primarily our maintenance and staffing costs, are likely to go up rather than down over the next four years, this creates a very challenging operating environment.*  *Hexagon has a substantial operating margin and we expect that we will be able to absorb the vast majority of the reduced income without any substantial threat to our financial health.*  *At the same time, this context calls for a renewed commitment to our Value for Money Strategy and our commitment to innovate and change our ways of working to achieve maximum efficiency to negate the impact of the reduction in income.*  ***Housing for sale in a post-Brexit world***  *In historical terms, grant funding per unit for housing association new build programmes is at an all-time historical low. From 1974 to 1988, housing associations enjoyed a very generous grant regime which saw grant rates that were extremely high (i.e. 90% +). This allowed housing associations to charge extremely low rents that were set by the rent officer as “fair rents”.*  *From 1989 through to 2010, housing associations saw decreasing grant rates that were approximately 66% of development costs. These were funded by social housing rents that were largely determined by a central Government rent restructuring regime and increased borrowings. Although these rents were higher than historic ‘fair rents’, they remained significantly below market rents.*  *In 2011, there was a significant change to grant funding for associations. Grant rates per unit tumbled and are currently in the region of 20% for new developments for the 2015-18 programme. These are funded on the back of substantially higher rents that have been allowed to rise in some cases, to 80% of market rents. These higher rents apply to all new developments and a proportion of re-lets.*  *High rents are antithetical to Hexagon’s ethos and values. As a charity, we have been established to help those in necessitous circumstances and it is very difficult for us to do that without substantial support from the Government in the form of capital subsidies.*  *Hexagon’s Board has taken the view that in response to this comparatively low grant regime, we should take on some “managed risks” by pursuing a programme of housing for outright sale to provide cross subsidy. The objective is to keep rents down, thereby allowing us to achieve our objectives and mission.*  *We will continue to change our way of working in relation to developing housing across tenures and we will manage the risks of housing for outright sale carefully to ensure that it benefits the business in overall terms and does not create any unintentional liabilities in respect of our social housing assets. Key to that strategy is an absolute cap on investment in housing for outright sale at any given time.*  *Since we have embarked on this strategy, Brexit has arrived, bringing significant uncertainty to the external operating environment relating to development. Perhaps key is the impact of Brexit vote on the housing market and house prices. This brings a heightened level of risk to our housing for sale activity which will need to be carefully managed.*  *Brexit also brings quite a lot of other uncertainties including an impact on the cost of imported building materials for constructing new homes and the availability of labour in the context of a skills shortage, should immigration, particularly from Eastern Europe, be reduced.*  ***Investing in IT in the context of a rapidly changing world of digital communications***  *Hexagon’s housing management system, Genero, is several decades old and although it has been subject to updates, it is reaching the end of its useful life. During the course of this Plan, we will procure a new IT system that is fit for the future.*  *Our existing system could be described as “property centred” and giving the increasing expectation of our customers, we need to move towards a more “customer-centred” IT system.*  *Internet access is increasingly a part of everyday life and a rapidly evolving digital revolution is rapidly changing the way in which businesses communicate with their customers.*  *Part of the digital revolution will include some options for self-service via a tenants’ portal enabled by a new and improved IT system. We will also increase the use of email and texts dependent on customer preference. We will also empower our staff to work more effectively and efficiently utilising mobile devices to ensure that they have better information to hand when out in the field that will assist them in serving our customers.*  *Where our residents express a preference to use digital communications which us, we will respond to that demand. At the same time, we recognise that a significant portion of our residents will choose to not to access the digital communications option, so a range of options will need to be retained, including for example, telephone contact as we move forward.*  **Recommendations**   * That the Board note and comment on the latest update on performance against the Corporate Plan in the context of our plans to develop a new Corporate Plan for 2017-2020. * That the Board agree the Mission Statement and Values, as per our existing plan. * That the Board comment on the draft for “The Context for Future Changes” section of the new plan. | |